H.BROTHERS ENTERTAINMENT
華誼騰訊娛樂

INTERIM REPORT 2019

華誼騰訊娛樂有限公司
Huayi Tencent Entertainment Company Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00419)

CONTENTS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the six months ended 30 June 2019 (the "period" or the "first half of 2019") are summarized in the table below:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Continuing operations:		
Total revenue	**48,076**	58,084
Gross profit	**18,052**	19,634
Loss before finance cost and taxation	**(7,921)**	(23,320)
Loss before income tax	**(8,033)**	(23,331)
Loss for the period	**(8,653)**	(23,407)
Loss for the period from discontinued operation	**–**	(52)
Loss for the period	**(8,653)**	(23,459)

Business Review

	Revenue		Segment Results	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Continuing operations				
Entertainment and media operations	**451**	1,139	**5,015**	(7,979)
Offline healthcare and wellness services	**47,625**	56,945	**(3,736)**	(3,514)
Total	**48,076**	58,084	**1,279**	(11,493)

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

The total revenue from the Entertainment and Media Operations dropped by nearly 60% period-to-period during the period to approximately HK$451,000 (2018: approximately HK$1,139,000) due to a lack of new theatrical release by the Company and its subsidiaries. As for the offline healthcare and wellness services, the revenue recorded a drop by 16% as the Group had disposed of its 51% equity interest in Beijing Si Hai Jun Tian Trading Company Limited ("SHJT") to an independent third party in May 2018. The Group's total revenue therefore amounted to approximately HK$48,076,000 during the period, representing a period-to-period decrease by about 17%. In spite of that, the drastic decrease in administrative expenses and the strong financial performance of HB Entertainment Co., Ltd. ("HB Entertainment"), an associate of the Group, during the period under review helped to narrow down the consolidated net loss of the Group substantially by 63% over the same period last year to approximately HK$8,653,000.

The Group has all the while been seeking opportunities in setting footprint in the Entertainment and Media Operations. The long lead time between film production and distribution has forbidden any new release during the period, yet the management expects that, with the Group having at least three to four of its films screened worldwide and in the People's Republic of China ("PRC") during the upcoming 18 months, the revenue and scale of the Entertainment and Media Operations of the Group will be bolstered significantly by then. On the other hand, the Group had entered into a Cooperation Framework Agreement during the period under review with Huayi Brothers International Limited ("Huayi Brothers"). According to the agreement, the Group will collaborate with Huayi Brothers in investing in and carrying out media and entertainment projects, as well as engage Huayi Brothers in providing distribution services for various media and entertainment projects which the Group owns or has acquired the distribution rights in the PRC. It is expected that the synergy within the Group will be enhanced as a result. This Cooperation Framework Agreement has already been approved at the Extraordinary General Meeting convened in June.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

HB Entertainment, in which the Group holds a stake of 31%, had recorded a quite remarkable financial performance during the period under review and hence boosted its contribution to the Group's income. The Group's share of profit amounted to approximately HK$5,221,000 (the Group's share of loss in the first half of 2018: approximately HK$702,000). Produced by HB Entertainment and aired at the end of 2018, *Sky Castle* has recorded the highest-ever national viewership rating of 23.8% in Korea, thereby strengthening HB Entertainment's bargaining power with local television stations. HB Entertainment had, during the period under review, produced and aired two television dramas, namely *Partners for Justice 2* and *Big Issue*, and both had achieved commendable results. In particular, *Partners for Justice 2* made its debut recently and reached the highest national viewership at 10.1%.

For the healthcare and wellness services, "Beijing Bayhood No.9 Club" was its major source of revenue. Originally concentrating on high-end customers, it has gradually reinvented its position by extending its target customer group to the mid-end ones. In May 2018, the Group had disposed of its 51% equity interest in SHJT to an independent third party. Coupled with the continuous stiff competition in the healthcare and wellness market, a period-to-period drop in revenue from the relevant operations during the period by 16% to approximately HK$47,625,000 (first half of 2018: approximately HK$56,945,000), and a slight increase in segment loss of 6% to approximately HK$3,736,000 (first half of 2018: approximately HK$3,514,000), were recorded.

Market Review

The growth of the Chinese economy has slackened since 2018, with its annual Gross Domestic Product ("GDP") growing by 6.6% period-to-period to RMB90.0309 trillion. China's GDP for the first half of 2019 was RMB45.0933 trillion, i.e. a growth of 6.3% (the increase was 6.4% in the first quarter and 6.2% in the second) compared to the same period last year. The pace of economic growth has hence become steady.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Market Review *(Continued)*

According to the National Bureau of Statistics of China, the period-to-period growth rate of the National Service Production Index in the first quarter of 2019 remained fast at 7.4%, signifying the continuation of its booming phase. When compared to last year, the nationwide consumer price index rose by 2.0% in the first quarter, amongst which the category of "Education, Culture and Entertainment" had a year-on-year growth by 2.5% in April. During the period under review, the nationwide average per capita disposable income was RMB15,294, up by 6.5% year-on-year in real terms, with that of the urban residents rising by 5.7% to RMB21,342. The nationwide average consumption expenditure per capita, meanwhile, went up by 5.2% over the past year to RMB10,330 in real terms, amongst which the consumption expenditure per capita on education, culture and entertainment, as well as healthcare, posted a satisfying growth by 10.9% to RMB1,033 and by 9.5% to RMB941 respectively. The improvement in living quality in the PRC, together with the steady increase in nationwide average per capita disposable income and consumption expenditure, have offered a favourable market environment to the Entertainment and Media Operations and the Healthcare Service Operations of the Group.

The gross box office receipts of the PRC in the first half of 2019 dropped by 2.72% to RMB31.164 billion, as compared to the same period last year (RMB32.034 billion). The total attendance decreased by 10.54% to approximately 806 million from 901 million for the first half of last year. At the same time, the average ticket price increased by RMB3.5 from RMB35.1 to RMB38.6, in other words a rise of 10% over last year. 252 films were released in Chinese theatres in the first half of 2019. Amongst them, 185 were Chinese movies and 67 were imported ones, and they had grossed RMB16.004 billion (51.45% of the total) and RMB15.162 billion (48.55% of the total) respectively. 44 movies (18 Chinese movies and 26 imported movies) raked in more than RMB100 million during the period, and the phenomenon suggests that, while Chinese films have gradually become more appealing, Hollywood blockbusters are still dominating the market. The rise in the average ticket price is one of the reasons for the drop in theatre attendance.

On the other hand, the accelerating construction of movie-related infrastructure has laid a solid foundation for the ever-expanding scale of the film market. In the first half of this year, 463 new theatres have been opened, while the addition of 3,492 new cinema screens propels the total number across China to 63,572, thereby cementing its position as the country with the largest number of cinema screens and the second largest scale of film market in the world.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Market Review *(Continued)*

The film market of North America remained by far the biggest one in the world in spite of its total box office receipts dropping year-on-year by 9.4% to US$5.616 billion. In the first half of 2019, eight of the top ten movies with the best global box office performance were produced and distributed by American movie studios. To cater for its business growth, the Group will continue to look for opportunities in cooperating with masterclass directors from Hollywood and top-notch studios, to invest in the development or to participate in the production of movies and television dramas, as well as to hoard a vast array of premium overseas intellectual properties ("IP").

As for the Korean film market, the *Korean Film Industry Report for the First Half of 2019* issued by the Korean Film Council showed that the box office receipts for Korean movies (a year-on-year growth by 16% to KRW930.7 billion) and the theatre attendance (a year-on-year growth by 13.5% to 109.32 million) have both set new heights in the first half of 2019. Amongst the movie-goers, 56.88 million (52% of the total) watched Korean movies and 52.44 million went for foreign films (a year-on-year drop of 5.4%). Only three Hollywood blockbusters, namely *Avengers: Endgame*, *Aladdin* and *Captain Marvel*, ranked in the top ten list of best box office performance in Korea in the first half of 2019, and the remaining seven were all Korean films. Amongst these seven films, the comedy *Extreme Job* had even outperformed *Avengers: Endgame* as the former racked up more than 16 million cinema attendance and KRW139.6 billion in cumulative box office, turning itself into a history maker: the movie has become the second best performer ever in Korean admissions and the highest ever in terms of box office. Its success demonstrates that Korean films are hugely popular amongst the locals and can be more alluring than Hollywood blockbusters. By investing in HB Entertainment, co-establishing the Huayi-Warner Contents Fund with Warner Bros. Korea Inc., and making direct investment in high-quality projects of Korean movies and television dramas, the Group had made an early deployment in the film market of Korea and such moves are expected to proffer considerable returns to the Company in the long run.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review

(1) *Entertainment and Media Operations*

The growth of the Chinese film market has slowed down in 2019 as structural adjustment is ongoing when the excellent ones outcompete the rest. To differentiate from the others in the future, better quality and reputation are indispensable. During the period under review, the Group had entered into a Cooperation Framework Agreement with Huayi Brothers, where the two parties will collaborate in investing in and launching media and entertainment projects, with a view to reinforcing the Group's deployment in the film market. Active discussions on a few projects in Hollywood and the PRC are already underway.

Last year, the Group had secured 50% of the distribution right in the PRC for four films produced in Europe and the United States. These films, which involve genres such as mystery, biography, science fiction, action and fantasy adventure, will be distributed in the PRC in collaboration with Huayi Brothers. *Radioactive* is one of them: a biopic of Marie Curie, the winner of the Nobel Prize in Physics, the movie was produced by STUDIOCANAL of France, directed by Marjane Satrapi and starring Rosamund Pike. It was chosen as the Closing Night Gala at the 2019 Toronto International Film Festival, and tentatively it will be released across the globe in the first half of 2020.

The Group has all along been actively looking for opportunities in commencing media and entertainment projects in North America, and it has confirmed the investment in developing an original animation during the period under review. The animation, to be co-produced by studios in Canada and the PRC, has a production budget of over US$30 million. Already at the production stage, it is expected to be released in the second half of 2020 and distributed across the globe and in the PRC.

With regard to the Korean market, the Group continues to be optimistic about the demand for Korean films and television dramas in Korean and overseas markets. During the period, the Group has invested in making the first Korean film on a space science fiction theme and has secured the film's distribution right in the PRC. Titled *Space Sweepers*, directed by Jo Sung-hee, and starring superstars like Song Joong-ki and Kim Tae-ri along with excellent actors like Yu Hae-jin and Jin Seon-kyu, the shooting of the film had begun in July 2019 and it is expected to be screened in the summer of 2020. The production budget reaches KRW24 billion (equivalent to approximately HK$160 million) and the film is expected to become the talk of the towns in the summer of 2020.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) ***Entertainment and Media Operations*** *(Continued)*

The long lead time required for production and distribution of movies resulted in a lack of new theatrical release by the Group during the period under review. Therefore, revenue from the Entertainment and Media Operations amounted to only approximately HK$451,000 (2018: approximately HK$1,139,000). To further advance its core Media and Entertainment Operations, the Group has already executed a series of investment and development plans. The management expects at least three to four of the Group's films, including some heavyweight blockbusters, to be screened worldwide and in the PRC in the coming 18 months. By then it is probable that the revenue and scale of the Media and Entertainment Operations of the Group will expand significantly.

On the other hand, *Partners for Justice 2* and *Big Issue*, the two television dramas produced by HB entertainment in which the Group holds a stake of 31% and aired during the period under review, have both achieved commendable performance. In particular, *Partners for Justice 2* has been able to inherit the huge popularity of its prequel: its nationwide viewing rate was dominating once again, soaring to 10.1% at its peak according to the viewership statistics of TNmS in Korea. ViuTV of Hong Kong offered a synchronous broadcast of the drama. Apart from the production of television dramas and management of artistes, HB Entertainment has acquired last year a film production company set up by Kim Seong-hun, the director of the film *Confidential Assignment*, so as to step up its development in the field. Thanks to its ability in producing excellent films and television dramas, as well as its shrewd market acumen, HB Entertainment is believed to be able to help the Group explore and consolidate its position in the market of the film and television industry of South Korea. Furthermore, the Huayi-Warner Contents Fund, which was co-established by the Group, Warner Bros. Korea Inc. et al., had a movie screened in the first half of 2019, and two or three more are expected to be distributed in South Korea in the second half of the same year.

In order to enhance its revenue and growth in profit, the Group will strive to introduce to the audience more prime movies and television dramas produced in the PRC, the United States and South Korea, continue producing and investing in high-quality film projects, and actively look for collaboration opportunities with top and world-renowned film studios.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(2) ***Healthcare and Wellness Services***

During the period, the Group's healthcare and wellness services focused on the operations of "Beijing Bayhood No. 9 Club", a healthcare and wellness centre which the Group continues to operate on a lease basis. It is one of the top green health clubs in the PRC with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia's first PGA-branded golf academy, offering high-end enterprises and individual clients professional and excellent offline healthcare and wellness services. The membership of "Beijing Bayhood No. 9 Club" remained steady during the period under review, and the offline healthcare and wellness services contributed approximately HK$47,625,000 in revenue to the Group in the first half of 2019, being a 16% decrease as compared with the corresponding period last year. The major reason was the drastic decrease in rental income due to completion of the Group's disposal of its 51% equity interest in SHJT to an independent third party in May 2018.

Facing the fierce market competition and the mounting pressure of rising operating costs, the business environment of the healthcare and wellness services had become more challenging. Even though the healthcare and wellness services, generally speaking, can be regarded as self-sustainable at present, the Group intends to concentrate its resources on the development of its core Entertainment and Media Operations. There will not be further investment in the healthcare and wellness services in the future as a result. The Management will continue to endeavour to step up its efforts in cost controls, so as to maintain the profit margin and stable operations of the healthcare and wellness services, yet, in order to support the all-out efforts in running the Entertainment and Media Operations and to reinforce the expansion of the core business of the Group, the possibility of future resources integration cannot be ruled out.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook

Looking ahead to the second half of 2019 and the year of 2020, the Group expects that, given the successive completion of its investment and development projects commenced in the past two financial years, the season of harvest is now on the horizon. It is anticipated that at least three to four movies of the Group will be screened across the world and in the PRC in the upcoming 18 months, including productions which have attracted the interest of the market and enthusiastic discussions in both the PRC and Korea. The Group is confident that these productions will attain success and hence it is hopeful that the Group's revenue generated from the Entertainment and Media Operations will hence be boosted.

According to public research (www.pwc.com/outlook), the PRC film market is growing quickly: with a compound annual growth rate of 9.4% over the next five years, it is expected to become the largest film market in the world by 2020 and the revenues will reach US$15.5 billion by 2023. The aforementioned research further points out that, in the PRC film market, the '80/20 rule' is at work. In 2018, 33 movies raked in more than RMB 500 million each, accounting for 72% of total box office. "Content is the king" — quality content has become the core driver of the market. The celebrity effect is in decline, while the word of mouth effect is on the rise. Furthermore, the internet has led to multiple effects on the film industry, including intensified competition among cinemas. In 2018, 84.5% of the movie ticket purchases in the PRC were made online. The popularity of online ticket purchases increased transparency in box office numbers. Online marketing channels were increasingly concentrated in ticketing platforms, social media and video websites, indicating heightened the importance of short video platforms in movie marketing. The sturdy support of Tencent Holdings Limited, the controlling shareholder of the Group, and its position in the media and entertainment network will allow the Group to enjoy the synergy and greater advantage in addressing the internetisation of the industry and to promote the prime movies in which it has invested.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook *(Continued)*

Besides, according to the latest report titled "New Era of China's Film Industry" under its China Culture & Entertainment Report Series, Deloitte points out that, driven by a concerted government incentivising policy, inflow of sizable amount of capital and a growth in audience in recent years, the PRC film industry will gradually expand in scale. The ticket sales of the PRC is already the strongest driver of the growth in global box office receipts. At the same time, the investment in new theatres will gradually expand to second- and third-tier cities, and the trend of mild growth in the export of Chinese movies will remain. The attraction brought by such continuous growth, nevertheless, means that competition in the field of film production will intensify. Against the backdrop of rapid expansion of the PRC film market, the Group has long since optimised its market footprint. Through the collaboration with Huayi Brothers in producing and distributing more appealing productions with first-rate content, the Group looks forward to embracing the forthcoming new era in which the PRC becomes the largest film market in the world.

Meanwhile, a public research (www.pwc.com/outlook) forecasts that the total box office receipts in the United States will be US$12.11 billion, while that in the PRC will be US$11.05 billion this year. For the next year, the figures will be US$11.93 billion and US$12.28 billion respectively. Based on the above, the PRC will remain the world's largest cinema market in terms of total box office in the next few foreseeable years (2021-2023). Even though Chinese films are making big strides, it is envisaged that American films, in particular Hollywood blockbusters, will continue to dominate the market across the globe in the coming few years. The Group has been actively seeking global opportunities for investing in prime films and television dramas, and it is now collaborating with top film studios and producers in North America and Europe to work on different projects, so that the audience may be surprised by an overwhelming experience in the coming year or two.

In recent years, the Korean film market has made a breakthrough and produced a number of movies with outstanding box office returns, a proof of its credentials to have a share in the international market. Korean movies, which demonstrate new themes and set new trends, have led the market into diversification and further broadened the audience base of Korean films. The Group believes that high-quality Korean films and television dramas will be in strong demand in Korean as well as in other Asian markets. Therefore, the Group will invest in those prime products in the future and step up its efforts in hoarding up quality Korean IP. As there are signs of the Korean entertainment and culture staging a comeback in the Chinese market, the Group will seize the chance and introduce preeminent Korean films and television dramas into the PRC.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook *(Continued)*

As for the healthcare and wellness services, the Group expects the operations of its offline healthcare and wellness services business "Beijing Bayhood No. 9 Club" to remain steady in the future. With the intention of focusing resources on developing its Entertainment and Media Operations in the future, the Group cannot rule out the possibility of integration of existing resources to complement its eventual development strategy.

FINANCIAL REVIEW

Continuing Operations

Total revenue for the six months ended 30 June 2019 amounted to approximately HK$48,076,000, being a 17% decrease comparing to the same period in prior year. As there was no new film being released by the Company and its subsidiaries during the period, revenue from the "Entertainment and Media" segment dropped by 60% to HK$451,000 (2018: HK$1,139,000) for the six months ended 30 June 2019. Revenue from "Offline Healthcare and Wellness Services" segment still accounts for majority of the Group's revenue, amounting to HK$47,625,000 (2018: HK$56,945,000) for the six months ended 30 June 2019, being a 16% decrease comparing to the same period in prior year. The decrease of the revenue from "Offline Healthcare and Wellness Services" segment was mainly attributed to the drop of rental income, as the Group had disposed of its 51% equity interest in SHJT to an independent third party in May 2018.

Cost of sales for the six months ended 30 June 2019 amounted to approximately HK$30,024,000 (2018: HK$38,450,000), being a 22% decrease comparing to the same period in prior year. The decrease in cost of sales was mainly attributed to the drop of the relevant costs of rental income, as the Group had disposed of its 51% equity interest in SHJT to an independent third party in May 2018 as mentioned above. As the gross profit margin of the SHJT operations is lower than that of other "Beijing Bayhood No.9 Club" operations, the disposal of SHJT operations has resulted in a higher gross profit margin of 38% (2018: 34%) for the six months ended 30 June 2019.

Other income and other gains, net, mainly comprising of exchange differences, gain on disposal of a subsidiary, interest income and fair value change in financial assets at fair value through profit or loss, amounting to a net gain of approximately HK$1,992,000 (2018: HK$126,000). The increase in net amount during the six months ended 30 June 2019 was mainly attributed to the increase in interest income generated from the proceeds from the disposal of Hao You completed by in December 2018.

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

As there was no new film being released by the Company and its subsidiaries during the period, no marketing and selling expenses for the six months ended 30 June 2019 has been recorded (2018: HK$297,000). The amount for the prior period mainly represented the Group's share of marketing, print & advertising expenses for the worldwide release of *Rock Dog* movie, mainly covering the relevant expenses for DVD, cable TV, IPTV releases, etc.

Administrative expenses for the six months ended 30 June 2019 decreased by 21% to approximately HK$33,186,000 (2018: HK$42,081,000). The decrease is mainly due to the Group's continued effort in expenditure control and reduction of legal and professional fees incurred.

Share of results of an associate for the current period represented the share of profit of HB Entertainment, an associated company of the Group. The financial performance of HB Entertainment has significantly improved in the first half of 2019, as HB Entertainment's bargaining power with the local television stations has been strengthened following the production of record-breaking TV drama *Sky Castle* in the second half of 2018. During the first half of 2019, HB Entertainment had produced two television dramas, namely *Partners for Justice 2* and *Big Issue*. In particular, inheriting the huge popularity of its prequel, *Partners for Justice 2* made its debut in June and has reached the highest national viewership at 10.1%.

Finance cost, net, representing the net of imputed finance income and imputed finance costs on discounting other borrowings and certain deposits paid/received, amounted to a net cost of approximately HK$112,000 during the six months ended 30 June 2019 (2018: HK$11,000).

Discontinued Operation

As the disposal of entire shareholding in Hao You has been completed in December 2018, there was no further results from discontinued operation during the six months ended 30 June 2019 (2018: HK$52,000).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 30 June 2019, the Group held cash and cash equivalents of approximately HK$346,547,000, being a 4% decrease comparing to the balance as at 31 December 2018.

The Group is at net current asset position of HK$392,663,000 as at 30 June 2019 (31 December 2018: HK$435,115,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 37.91 as at 31 December 2018 to 2.19 as at 30 June 2019, still representing a very healthy liquidity position.

The debt to equity ratio, representing the sum of borrowings to total equity, is 37% as at 30 June 2019 (31 December 2018: Nil). The Group has other borrowings of approximately HK$318,234,000 as at 30 June 2019 (31 December 2018: Nil).

Foreign Currency Exchange Exposure

The Group has operations and investments in China, South Korea, the USA and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and South Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the year, depreciation in Chinese Renminbi and South Korean Won against Hong Kong dollars resulted in the exchange losses of approximately HK$182,000 (2018: exchange losses of HK$4,190,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and South Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

Capital Structure

The Group has mainly relied on its equity, other borrowings and internally generated cash flow to finance its operations.

During the six months ended 30 June 2019 and 2018, the Company has not issued new ordinary shares.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, none of the Group's assets was charged and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 30 June 2019, the Group employed a total of 27 (31 December 2018: 26) full-time employees in Hong Kong and the PRC, and continued to manage "Beijing Bayhood No.9 Club" operations with 449 (31 December 2018: 384) full-time employees in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 4 June 2012 (the "Share Option Scheme").

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide appropriate incentives or rewards to eligible participants for their contributions or potential contributions to the Group and to promote the success of the business of the Group. The eligible participants of the Share Option Scheme include (but are not limited to) directors of the Group, employees of the Group, suppliers of goods or services to the Group, customers of the Group, and shareholders of any member of the Group. The Share Option Scheme became effective on the adoption date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options to be granted under any other share option schemes must not in aggregate exceed 10% of the aggregate of the shares in issue as at the adoption/refreshment date.

The maximum number of shares issuable to each eligible participant under the Share Option Scheme and any other schemes of the Group in any 12-month period, is limited to 1% of the issued shares of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meetings.

SHARE OPTION SCHEME *(Continued)*

Each grant of options to a participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the Share Option Scheme must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who or whose associate is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an Independent Non-executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders in general meetings.

A participant shall pay the Company HK$1.00 for the acceptance of an option offer within 21 days after the offer date. The option price will be determined by the board at its absolute discretion and notified to option-holders. The minimum option price shall not be less than the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of the shares.

During the period, no share options were granted, exercised, cancelled or lapsed, and there were no outstanding options under the Share Option Scheme as at 1 January 2019 and 30 June 2019. As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 1,349,810,657 which represents approximately 10% of the total issued shares of the Company.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2019, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Capacity	Number of shares held: Personal interest	Corporate interest	Total interest	% of total issued share capital of the Company (Note 1)
YUEN Hoi Po	Beneficial owner and interest of controlled corporations	139,000,000	1,976,492,607 (Note 2)	2,115,492,607	15.67
CHU Yuguo	Beneficial owner	2,000,000	–	2,000,000	0.01

Notes:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 30 June 2019.

2. Mr. YUEN Hoi Po was deemed to be interested in 1,976,492,607 shares of the Company held by his wholly-owned corporations namely, Ming Bang Limited, Rich Public Limited and Smart Concept Enterprise Limited.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

Save as disclosed above, as at 30 June 2019, none of the Directors, Chief Executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2019, the interests and short positions of the following persons (other than Directors or Chief Executives of the Company) in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note 1)
Huayi Brothers Media Corporation	Interest of a controlled corporation (Note 2)	Corporation interest	2,452,447,978	18.17
Huayi Brothers International Limited	Beneficial owner	Beneficial interest	2,452,447,978	18.17
Tencent Holdings Limited	Interest of a controlled corporation (Note 3)	Corporation interest	2,116,251,467	15.68

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(Continued)*

Long positions in ordinary shares of the Company: *(Continued)*

Name of Shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note 1)
YUEN Hoi Po	Beneficial owner and interest of controlled corporations (Note 4)	Beneficial and corporation interest	2,115,492,607	15.67
Smart Concept Enterprise Limited	Beneficial owner	Beneficial interest	1,837,000,000	13.61
Rich Public Limited	Beneficial owner (Note 5)	Beneficial interest	139,492,607	1.03
Ming Bang Limited	Interest of a controlled corporation (Note 6)	Corporation interest	139,492,607	1.03

Notes:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 30 June 2019.

2. Huayi Brothers International Limited is a wholly-owned subsidiary of Huayi Brothers Media Corporation and is beneficially interested in 2,452,447,978 shares of the Company.

3. Mount Qinling Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited and is beneficially interested in 2,116,251,467 shares of the Company.

4. Mr. YUEN Hoi Po was deemed to be interested in 1,976,492,607 shares of the Company held by his wholly-owned corporations namely, Ming Bang Limited, Rich Public Limited and Smart Concept Enterprise Limited.

5. Rich Public Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Ming Bang Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(Continued)*

Long positions in ordinary shares of the Company: *(Continued)*

Notes: *(Continued)*

6. Ming Bang Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Mr. YUEN Hoi Po who is also a director of Ming Bang Limited.

Save as disclosed above, as at 30 June 2019, no other persons had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance. Throughout the six months ended 30 June 2019, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules with the exception of the following deviation:–

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period, the roles of chairman ("Chairman") and chief executive officer ("CEO") of the Group have not been separated.

The Board believes that it is appropriate and in the interests for the same individual to serve as the Chairman and CEO because it helps ensure consistent leadership within the Group and enable more effective and efficient overall strategic planning for the Group. The Board considers that this structure did not impair the balance of power and authority between the Board and the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT PERSONS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

The Code of Conduct applies to all the relevant persons as defined in the CG Code, including any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of their office or employment, are likely to possess inside information in relation to the Company or its securities.

REVIEW OF INTERIM REPORT

The Audit Committee comprising of three Independent Non-executive Directors, namely Mr. YUEN Kin (Audit Committee Chairman), Mr. CHU Yuguo and Dr. WONG Yau Kar, David has reviewed the Group's unaudited interim report for the six months ended 30 June 2019 together with the Company's independent auditor and there were no disagreements with any accounting treatment.

OTHER CHANGES IN DIRECTORS' INFORMATION

Except the following, no other changes in Directors' information are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of 2018 Annual Report:

1. Mr. HU Junyi has been appointed as a director of Huayi Brothers Korea Co., Ltd. (KOSDAQ: 204630) on 26 March 2019; and

2. Dr. WONG Yau Kar, David has been appointed as an independent non-executive director of CSSC (Hong Kong) Shipping Company Limited (Stock code: 3877) on 6 May 2019.

By Order of the Board
WANG Zhongjun
Chairman
Hong Kong, 28 August 2019

羅兵咸永道

TO THE BOARD OF DIRECTORS OF
HUAYI TENCENT ENTERTAINMENT COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 65, which comprises the condensed consolidated interim balance sheet of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2019

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Continuing Operations			
Revenue and film investment income	5	**47,625**	58,084
Interest revenue calculated using the effective interest method	5	**451**	–
	5	**48,076**	58,084
Cost of sales		**(30,024)**	(38,450)
Gross profit		**18,052**	19,634
Other income and other gains, net	5	**1,992**	126
Marketing and selling expenses		**–**	(297)
Administrative expenses		**(33,186)**	(42,081)
Share of result of an associate		**5,221**	(702)
		(7,921)	(23,320)
Finance cost, net	7	**(112)**	(11)
Loss before taxation	8	**(8,033)**	(23,331)
Taxation	9	**(620)**	(76)
Loss for the period from continuing operations		**(8,653)**	(23,407)
Discontinued Operation			
Loss for the period from discontinued operation	20	**–**	(52)
Loss for the period		**(8,653)**	(23,459)
Loss attributable to:			
Equity holders of the Company			
— continuing operations		**(8,653)**	(23,978)
— discontinued operation		**–**	(52)
		(8,653)	(24,030)
Non-controlling interest			
— continuing operations		**–**	571
		(8,653)	(23,459)

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Note	**HK cents**	HK cents
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted loss per share	10		
— from continuing operations		**(0.06)**	(0.18)
— from discontinued operation		**–**	–
		(0.06)	(0.18)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period	**(8,653)**	(23,459)
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(2,812)**	529
Other comprehensive (loss)/income for the period, net of tax	**(2,812)**	529
Total comprehensive loss for the period	**(11,465)**	(22,930)
Total comprehensive loss attributable to:		
Equity holders of the Company		
— continuing operations	**(11,465)**	(21,243)
— discontinued operation	**–**	(2,260)
	(11,465)	(23,503)
Non-controlling interest		
— continuing operation	**–**	573
	(11,465)	(22,930)

The notes on pages 32 to 65 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2019

	Note	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**5,498**	6,276
Right-of-use assets	4	**27,000**	—
Film right and film production in progress	13	**148,942**	129,528
Interest in an associate	15	**278,788**	275,982
Financial asset at fair value through profit or loss	16	**5,316**	5,973
Prepayments, deposits and other receivables		**—**	16,200
		465,544	433,959
Current assets			
Trade receivables	17	**—**	—
Programmes and film production in progress	14	**35,251**	—
Prepayments, deposits and other receivables		**340,595**	84,415
Cash and cash equivalents		**346,547**	362,490
		722,393	446,905
Total assets		**1,187,937**	880,864

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	19	**269,962**	269,962
Reserves		**587,365**	598,830
Total equity		**857,327**	868,792
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**880**	282
		880	282
Current liabilities			
Other payables and accrued liabilities		**11,496**	11,790
Other borrowings	18	**318,234**	—
		329,730	11,790
Total liabilities		**330,610**	12,072
Total equity and liabilities		**1,187,937**	880,864

The notes on pages 32 to 65 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(66,981)**	81,265
Cash flows from investing activities		
Bank interest received	**2,564**	831
Investment in an associate	**—**	(91,357)
Purchase of property, plant and equipment	**(410)**	(1,424)
Net proceeds from disposal of a subsidiary, net of cash and cash equivalent included in the subsidiary disposed of	**56,951**	(3,752)
Net cash generated from/(used in) investing activities	**59,105**	(95,702)
Cash flows from financing activities		
Proceeds from other borrowings	**323,803**	—
Increase in pledged deposits	**(331,261)**	—
Net cash used in financing activities	**(7,458)**	—
Net decrease in cash and cash equivalents	**(15,334)**	(14,437)
Cash and cash equivalents at 1 January	**362,490**	128,626
Currency translation differences	**(609)**	(698)
Cash and cash equivalents at 30 June	**346,547**	113,491
Analysis of cash and cash equivalents:		
Cash and cash equivalents of the Group	**346,547**	113,491
Reclassification to assets of disposal group held for sale	**—**	(49)
	346,547	113,442

The notes on pages 32 to 65 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Attributable to equity holders of the Company								
	Share capital HK$'000	**Share premium HK$'000**	**Merger reserve HK$'000**	**Capital redemption reserve HK$'000**	**Currency translation reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**	**Non-Controlling Interest HK$'000**	**Total HK$'000**
Balance at 1 January 2019	**269,962**	**1,213,484**	**860,640**	**1,206**	**(7,323)**	**(1,469,177)**	**868,792**	**–**	**868,792**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(8,653)**	**(8,653)**	**–**	**(8,653)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(2,812)**	**–**	**(2,812)**	**–**	**(2,812)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,812)**	**(8,653)**	**(11,465)**	**–**	**(11,465)**
Balance at 30 June 2019	**269,962**	**1,213,484**	**860,640**	**1,206**	**(10,135)**	**(1,477,830)**	**857,327**	**–**	**857,327**

(Unaudited)

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital redemption reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-Controlling Interest HK$'000	Total HK$'000
Balance at 1 January 2018	269,962	1,213,484	860,640	1,206	56	73,734	(1,542,970)	876,112	(154)	875,958
Change in accounting policy	–	–	–	–	(56)	–	56	–	–	–
Restated total equity as at 1 January 2018	269,962	1,213,484	860,640	1,206	–	73,734	(1,542,914)	876,112	(154)	875,958
(Loss)/profit for the period	–	–	–	–	–	–	(24,030)	(24,030)	571	(23,459)
Other comprehensive income	–	–	–	–	–	527	–	527	2	529
Total comprehensive income/(loss)	–	–	–	–	–	527	(24,030)	(23,503)	573	(22,930)
Transaction with owners in their capacity as owners:										
Disposal of a subsidiary (Note 21)	–	–	–	–	–	–	–	–	(419)	(419)
Balance at 30 June 2018	269,962	1,213,484	860,640	1,206	–	74,261	(1,566,944)	852,609	–	852,609

The notes on pages 32 to 65 form an integral part of this condensed consolidated interim financial information.

1. GENERAL INFORMATION

Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousand Hong Kong dollars (HK$'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 28 August 2019.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT

(i) Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new accounting Standards effective for the financial year ending 31 December 2018 as described in Note 4.

(ii) Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Financial risk management and financial instruments

(a) *Financial risk factors*

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, foreign exchange risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management policies since year end.

(b) *Liquidity risk*

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

(c) *Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Financial risk management and financial instruments *(Continued)*

(c) ***Fair value estimation*** *(Continued)*

The following table presents the Group's assets that are measured at fair value:

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
At 30 June 2019				
Financial asset at fair value through profit or loss	**–**	**–**	**5,316**	**5,316**
At 31 December 2018				
Financial asset at fair value through profit or loss	–	–	5,973	5,973

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer.

There were no transfers between levels 1, 2 and 3, and no change in valuation techniques during the year (2018: same).

The Group has determined that the net asset value approximates fair value of the unlisted investment fund.

4. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

A number of new or amended standards have become applicable for the current reporting period and the Group has changed its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 Leases:

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in this note. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Impact on the condensed consolidated interim financial information

As explained in note 4(a) below, HKFRS 16 was generally adopted by the Group without restating comparative information as permitted under the specific transitional provisions in the standards. As a result of the changes in the entity's accounting policies, certain reclassifications and adjustments are therefore not reflected in the restated balance sheet as at 31 December 2018, but are recognized in the opening balance sheet on 1 January 2019.

(a) *Adjustments recognized on adoption of HKFRS 16*

On adoption of HKFRS 16, the Group did not recognize lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases due to all these operating leases are either fully prepaid or short-term lease contract.

	2019 **HK$'000**
Operating lease commitments disclosed as at 31 December 2018	**1,820**
Less: short-term leases recognized on a straight-line basis as expense	**(1,820)**
Lease liability recognized as at 1 January 2019	**–**

Right-of-use assets were initially measured on a present time value basis at the amount equal to the lease liability, adjusted by the amount of any prepaid recognized in the balance sheet as at 31 December 2018.

4. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES *(Continued)*

Impact on the condensed consolidated interim financial information *(Continued)*

(a) ***Adjustments recognized on adoption of HKFRS 16*** *(Continued)*

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by HK$37,800,000
- prepayments — decrease by HK$37,800,000

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

(b) ***The Group's leasing activities and how these are accounted for***

The Group leases various office and certain assets on the land of Beijing Bayhood No.9 Club. Rental contracts are typically made for fixed periods of 3 to 20 years but may have terminated options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

4. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES *(Continued)*

Impact on the condensed consolidated interim financial information *(Continued)*

(b) *The Group's leasing activities and how these are accounted for* *(Continued)*

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

4. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES *(Continued)*

Impact on the condensed consolidated interim financial information *(Continued)*

(b) *The Group's leasing activities and how these are accounted for* *(Continued)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration cost

Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Termination option

- Termination option is included in the property, plant and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The termination option held is exercisable only by the Group and not by the respective lessor.

  Critical judgements in determining the lease term

  - In determining the lease term, management considers all facts and circumstances that create an economic incentive to not exercise a termination option. Periods after termination option are only included in the lease term if the lease is reasonably certain to be not terminated. Potential future cash outflows of approximately RMB467 million (equivalent to approximately HK$531 million) represented the maximum exposure to lease contract have not been included in the lease liability because it is not reasonably certain that the leases will not be terminated.

5. REVENUE AND FILM INVESTMENT INCOME, INTEREST REVENUE CALCULATED USING THE EFFECTIVE INTEREST METHOD AND OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Entertainment and media		
— Film exhibition	**–**	1,139
— Interest revenue calculated using the effective interest method	**451**	–
Offline healthcare and wellness services		
— Club activities income	**23,087**	22,520
— Membership fees	**17,529**	15,568
— Rental income	**–**	10,880
— Food and beverage	**7,009**	7,977
	48,076	58,084

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Other income and other gains, net		
Interest income	**2,564**	831
Exchange losses, net	**(182)**	(4,190)
Gain on disposal of a subsidiary	**–**	3,188
Fair value change in financial asset at fair value through profit or loss	**(657)**	152
Miscellaneous	**267**	145
	1,992	126

6. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the chief executive officer and the chief financial officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organized into two main operating segments from continuing operations: (i) Entertainment and media businesses; and (ii) Offline healthcare and wellness services. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from loss before taxation, excluding exchange losses, net, finance costs, net and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, office rental and other administrative expenses which are not attributable to particular reportable segment. There are no sales between the operating segments in the period (2018: Nil).

6. SEGMENT INFORMATION *(Continued)*

(a) Business segment

The segment results for the six months ended 30 June 2019 are as follows:

	Entertainment and media (Unaudited) HK$'000	Offline healthcare and wellness service (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue and film investment income	–	47,625	47,625
Interest revenue calculated using the effective interest method	451	–	451
	451	47,625	48,076
Share of result of an associate	5,221	–	5,221
Segment results	5,015	(3,736)	1,279
Exchange losses, net			(182)
Unallocated expenses, net			(9,018)
			(7,921)
Finance costs, net			(112)
Loss before taxation			(8,033)
Taxation			(620)
Loss for the period			(8,653)
Non-controlling interest			–
Loss for the period attributable to equity holders of the Company			(8,653)

6. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

An analysis of the Group's assets and liabilities as at 30 June 2019 by segment and other information for the six months ended 30 June 2019 are as follows:

	Entertainment and media (Unaudited) HK$'000	Offline healthcare and wellness service (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 30 June 2019			
Segment assets	**468,297**	**36,826**	**505,123**
Unallocated assets			**682,814**
Total assets			**1,187,937**
Segment liabilities	**880**	**6,169**	**7,049**
Unallocated liabilities			**323,561**
Total liabilities			**330,610**
For the six months ended 30 June 2019			
Other Information:			
Purchases of property, plant and equipment			
— Allocated	**–**	**395**	**395**
— Unallocated			**15**
Depreciation of property, plant and equipment			
— Allocated	**–**	**655**	**655**
— Unallocated			**513**
Depreciation of right-of-use assets	**–**	**10,800**	**10,800**

6. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

The segment results for the six months ended 30 June 2018 are as follows:

	Entertainment and media (Unaudited) HK$'000	Offline healthcare and wellness service (Unaudited) HK$'000	Total continuing operations (Unaudited) HK$'000	Discontinued operation: Entertainment and media – Beijing Hao You Media Culture Co., Ltd. ("Hao You") (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue and film investment income	1,139	56,945	58,084	–	58,084
Share of result of an associate	(702)	–	(702)	–	(702)
Segment results	(7,979)	(3,514)	(11,493)	(52)	(11,545)
Exchange losses, net			(4,190)	–	(4,190)
Unallocated expenses, net			(7,637)	–	(7,637)
			(23,320)	(52)	(23,372)
Finance costs, net			(11)	–	(11)
Loss before taxation			(23,331)	(52)	(23,383)
Taxation			(76)	–	(76)
Loss for the period			(23,407)	(52)	(23,459)
Non-controlling interest			(571)	–	(571)
Loss for the period attributable to equity holders of the Company			(23,978)	(52)	(24,030)

6. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

An analysis of the Group's assets and liabilities as at 31 December 2018 by segment and other information for the six months ended 30 June 2018 are as follows:

	Entertainment and media (Unaudited) HK$'000	Offline healthcare and wellness service (Unaudited) HK$'000	Total continuing operations (Unaudited) HK$'000
At 31 December 2018			
Segment assets	411,483	50,505	461,988
Unallocated assets			418,876
Total assets			880,864
Segment liabilities	282	5,847	6,129
Unallocated liabilities			5,943
Total liabilities			12,072
For the six months ended 30 June 2018			
Other Information:			
Purchases of property, plant and equipment			
— Allocated	–	1,442	1,442
— Unallocated			966
Depreciation			
— Allocated	–	1,559	1,559
— Unallocated			845
Amortization of film right	747	–	747
Amortization of other intangible assets	–	3	3

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segment

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets[Note]	
	30 June 2019 HK$'000	30 June 2018 HK$'000	**30 June 2019 HK$'000**	31 December 2018 HK$'000
The People's Republic of China (the "PRC")	**47,625**	56,945	**42,086**	31,685
Hong Kong	**–**	–	**245**	571
Other countries	**451**	1,139	**139,109**	119,748
	48,076	58,084	**181,440**	152,004

Note: Non-current assets exclude interest in an associate, financial asset at fair value through profit or loss, and non-current portion of deposits and other receivables.

7. FINANCE COST, NET

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Finance cost		
Imputed finance cost on discounting pledged deposit paid	**(6,205)**	–
Imputed finance cost on unwinding of discounted other borrowings	**(517)**	–
Imputed finance cost on unwinding of discounted non-current rental deposits received	**–**	(54)
	(6,722)	(54)
Finance income		
Imputed finance income on discounting other borrowings	**6,086**	–
Imputed finance income on unwinding of discounted pledged deposit paid	**524**	–
Imputed finance income on unwinding of discounted non-current rental deposits paid	**–**	43
	6,610	43
Finance cost, net	**(112)**	(11)

8. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation of property, plant and equipment (Note 12)	**1,168**	2,404
Amortization of film right (Note 13)	**–**	747
Depreciation of right-of-use assets	**10,800**	–
Employee benefit expenses:		
Directors' fees	**300**	300
Wages and salaries	**5,843**	7,548
Contributions to defined contribution pension schemes	**926**	1,139
	7,069	8,987

9. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the period (2018: same). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the regions/countries in which the Group operates.

PRC Corporate Income Tax has been provided at the rate of 25% (2018: 25%) on the estimated assessable profit for the period.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
— Hong Kong profits tax	**–**	–
— PRC corporate income tax	**–**	–
Deferred income tax	**620**	76
Income tax expense	**620**	76

The weighted average applicable tax rate for the six months ended 30 June 2019 was 20.7% (2018: 20.5%).

10. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue (thousands)	**13,498,107**	13,498,107
Loss from continuing operations attributable to equity holders of the Company (HK$'000)	**(8,653)**	(23,978)
Basic loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**(0.06)**	(0.18)
Loss from discontinued operation attributable to equity holders of the Company (HK$'000)	**–**	(52)
Basic loss per share from discontinued operation attributable to equity holders of the Company (HK cents per share)	**–**	–
Basic loss per share attributable to equity holders of the Company (HK cents per share)	**(0.06)**	(0.18)

Diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares for the six months ended 30 June 2019 (2018: same).

11. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2019 (2018: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

	Building (Unaudited) HK$'000	Machinery and equipment (Unaudited) HK$'000	Furniture, computer and equipment (Unaudited) HK$'000	Leasehold improvements (Unaudited) HK$'000	Motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Six months ended 30 June 2019						
Opening net book amount	**445**	**1,496**	**1,162**	**541**	**2,632**	**6,276**
Additions	**–**	**154**	**111**	**–**	**145**	**410**
Depreciation	**(113)**	**(200)**	**(179)**	**(324)**	**(352)**	**(1,168)**
Exchange difference	**(1)**	**(6)**	**(3)**	**–**	**(10)**	**(20)**
Closing net book amount	**331**	**1,444**	**1,091**	**217**	**2,415**	**5,498**
Six months ended 30 June 2018						
Opening net book amount	–	1,287	1,282	2,685	1,805	7,059
Additions	957	595	164	–	692	2,408
Disposal of a subsidiary	–	–	–	(298)	–	(298)
Depreciation	(374)	(178)	(159)	(1,478)	(215)	(2,404)
Exchange difference	(3)	(14)	(11)	18	(17)	(27)
Closing net book amount	580	1,690	1,276	927	2,265	6,738

Depreciation expenses of approximately HK$1,168,000 (2018: HK$2,404,000) have been charged in administrative expenses.

13. FILM RIGHT AND FILM PRODUCTION IN PROGRESS

	Film right	Film production in progress	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2019			
Opening net book amount	**1,175**	**128,353**	**129,528**
Addition	**–**	**19,210**	**19,210**
Exchange difference	**(5)**	**209**	**204**
Closing net book amount	**1,170**	**147,772**	**148,942**
At 30 June 2019			
Cost	**125,931**	**147,772**	**273,703**
Accumulated amortization	**(37,262)**	**–**	**(37,262)**
Impairment	**(87,499)**	**–**	**(87,499)**
Net book amount	**1,170**	**147,772**	**148,942**
Six months ended 30 June 2018			
Opening net book amount	3,498	209,355	212,853
Return of capital	–	(89,697)	(89,697)
Amortization	(747)	–	(747)
Closing net book amount	2,751	119,658	122,409
At 30 June 2018			
Cost	124,761	119,658	244,419
Accumulated amortization	(36,764)	–	(36,764)
Impairment	(85,246)	–	(85,246)
Net book amount	2,751	119,658	122,409

13. FILM RIGHT AND FILM PRODUCTION IN PROGRESS *(Continued)*

No amortization of film right has been charged in condensed consolidated interim income statement (2018: HK$747,000).

The Group has entered into certain joint operation arrangements to produce or distribute up to eight (31 December 2018: seven) films. The Group has participating interests ranging from 10% to 50% (31 December 2018: 10% to 50%) in these joint operations. As at 30 June 2019, the aggregate amounts of assets recognized in the condensed consolidated interim balance sheet relating to the Group's interests in these joint operation arrangements are the film right and film production in progress of HK$148,942,000 (31 December 2018: HK$129,528,000).

14. PROGRAMMES AND FILM PRODUCTION IN PROGRESS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
At 1 January	**–**	4,785
Addition	**34,800**	–
Interest revenue calculated using the effective interest method	**451**	–
Investment return withdrawn	**–**	(4,608)
Exchange difference	**–**	(177)
At 30 June	**35,251**	—

Programmes and film production in progress are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 30 June 2019, the average effective interest rate for the outstanding balance was 6.5% (2018: N/A).

15. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 30 June 2019 which, in the opinion of the directors, is material to the Group. The associate is a private company and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interest in the associate, and there are no contingent liabilities and commitments of the associate itself.

Nature of interest in an associate as at 30 June 2019 and 31 December 2018 is as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2019	2018	
HB Entertainment Co., Ltd ("HB Entertainment")	South Korea, limited liability company	**31%**	31%	Production of and investment in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea

16. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Unlisted securities		
Huayi-Warner Contents Fund	**5,316**	5,973

Financial asset at fair value through profit or loss include interests in Huayi- Warner Contents Fund, which are unlisted securities. On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of KRW1 billion (equivalent to approximately HK$6.8 million) for the establishment of Huayi-Warner Contents Fund. As at 30 June 2019, it represented 11% of the total capital contribution to the fund. The Fund's capital shall be invested in film projects that are produced and distributed by Warner Bros. Korea Inc.

16. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The balance is denominated in Korean Won. The maximum exposure to credit risk at the period-end is the carrying value.

During the six months ended 30 June 2019, the net fair value loss of HK$657,000 (2018: net fair value gain of HK$152,000) was recognized in the condensed consolidated interim income statement.

17. TRADE RECEIVABLES

At 30 June 2019 and 31 December 2018, the aging analysis of the trade receivables based on invoice date were as follows:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Over 1 year (Note)	**8,333**	(8,373)
Loss allowance	**(8,333)**	(8,373)
	–	–

As at 30 June 2019 and 31 December 2018, no net trade receivable were recognized in the condensed consolidated interim balance sheet relating to the Group's interest in joint operation arrangements as detailed in Note 13.

Note: The difference between the balance as at 30 June 2019 and 31 December 2018 represented the exchange realignment.

18. OTHER BORROWINGS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Current		
Other borrowings (Note)	**318,234**	–

Note: The amounts included borrowings provided by non-financial institutions, with a total amount of approximately HK$318,234,000 as at 30 June 2019 (2018: Nil). The borrowings are interest-free, repayable in 12 months from the balance sheet date and are secured by deposits denominated in Renminbi amounted to RMB285,012,000 (equivalent to approximately HK$323,988,000) as at 30 June 2019 (2018: Nil). As at the date of drawdown, the imputed interest represented the differences between the fair value and the principal amount of the borrowings amounting approximately HK$6,086,000 which was recognized in "Finance income" in the condensed consolidated interim income statement and is unwind over the loan period which was recognized in "Finance cost" of approximately HK$517,000 in the condensed consolidated interim income statement for the six months ended 30 June 2019 (2018: Nil).

19. SHARE CAPITAL

	Ordinary shares of HK$0.02 each		Preference shares of HK$0.01 each		
	Number of shares		Number of shares		Total
	'000	HK$'000	'000	HK$'000	HK$'000
Authorized:					
At 30 June 2019 (Unaudited)	**150,000,000**	**3,000,000**	**240,760**	**2,408**	**3,002,408**
At 31 December 2018 (Audited)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2019 and 30 June 2019 (Unaudited)	**13,498,107**	**269,962**	**–**	**–**	**269,962**
At 1 January 2018 and 30 June 2018 (Unaudited)	13,498,107	269,962	–	–	269,962

19. SHARE CAPITAL *(Continued)*

Share Option

Pursuant to a resolution passed on the extraordinary general meeting of the Company dated 4 June 2012, the share option scheme adopted by the Company on 30 July 2002 ("Terminated Option Scheme") has been terminated and the Company has adopted a new 10-year term share option scheme ("New Option Scheme") on the same date. Outstanding share options granted under the Terminated Option Scheme shall continue to be valid and exercisable. Pursuant to the New Option Scheme, the Company can grant options to Qualified Persons (as defined in the New Option Scheme) for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on 22 April 2016, the Company can further grant up to 1,349,810,657 share options to the Qualified Persons.

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the six months ended 30 June 2019, no share option (2018: Nil) have been granted under the New Option Scheme and no share-based payment expense (2018: Nil) has been charged to the condensed consolidated interim income statement.

During the six months ended 30 June 2019, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Option Scheme as at 30 June 2019 (2018: Nil).

20. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

For the six months ended 30 June 2018

	Six months ended 30 June 2018 (Unaudited) HK$'000
Loss for the period from discontinued operation is comprised of the following:	
Hao You (Note)	(52)
	(52)

Note:

Hao You

On 9 September 2016, Beijing Hua Yi Hao Ge Media Culture Co., Ltd. ("Hao Ge", a wholly-owned subsidiary of the Company) and Poly Culture Group Corporation Limited ("Poly Culture") entered into an agreement in relation to the possible acquisition of the remaining 50% equity interest in Hao You by Hao Ge from Poly Culture for a consideration of RMB80 million. Hao You was the then joint venture of the Group held by Hao Ge as to 50%.

On 25 November 2016, Hao Ge and Poly Culture entered into a sales and purchases agreement in relation to the remaining 50% equity interest in Hao You at a consideration of RMB80 million (equivalent to approximately HK$90.1 million) (the "Step Acquisition"). Upon the completion of the Step Acquisition on 1 December 2016, Hao You became a wholly-owned subsidiary of the Company.

Hao Ge acquired Hao You with a view to subsequently dispose of all or a majority of its equity interest in Hao You and the amount due from Hao You by Hao Ge to a potential buyer. Hao Ge has held equity interest in Hao You since 2005 and Hao You had made losses since 2014. For the year ended 31 December 2015, the Group made provision for impairment of interest in Hao You and amount due from Hao You amounting HK$164 million, which was mainly due to deterioration of expected future cash flows from Hao You. Given that the financial results of Hao You had not been satisfactory and it did not make positive contribution to the Group in recent years, management decided to dispose the Group's investment in Hao You.

20. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Note: *(Continued)*

Hao You *(Continued)*

On 5 December 2018, Hao Ge and Hainan Radio and TV Station Ltd (the "Purchaser A"), which is principally engaged in operations of TV and radio stations in Hainan Province and holds 50% equity interest in Hainan Haishi Travel Satellite TV, entered into a sales and purchase agreement for the disposal of the entire equity interest in Hao You to the Purchaser A for a consideration of RMB283,000,000 (equivalent to approximately HK$322,986,000). The abovementioned transaction was completed on 27 December 2018.

Analysis of cumulative income or expense recognized in other comprehensive income relating to the disposal group in relation to Hao You classified as held for sale is as follows:

	Six months ended 30 June 2018 (Unaudited) HK$'000
Currency translation differences	(2,208)

20. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Note: *(Continued)*

Hao You *(Continued)*

Analysis of the result of discontinued operation in relation to Hao You, and the result recognized on the re-measurement of the equity interest in Hao You, is as follows:

	Six months ended 30 June 2018 (Unaudited) HK$'000
Other expenses and other losses, net	(52)
Loss before taxation of discontinued operation	(52)
Taxation	–
Loss for the period from discontinued operation	(52)

Analysis of the cash flows of discontinued operation in relation to Hao You is as follows:

	Six months ended 30 June 2018 (Unaudited) HK$'000
Operating cash flows	(206)
Investing cash flows	–
Financing cash flows	–
Total cash flows	(206)

21. DISPOSAL OF A SUBSIDIARY

For the six months ended 30 June 2018

On 28 March 2018, Hao Ge with an independent third party (the "Purchaser B") entered into an equity transfer agreement for the disposal of 50% equity interest in Beijing Si Hai Jun Tian Trading Company Limited ("SHJT") by Hao Ge to the Purchaser B for a consideration of RMB4,000,000 and Hao Ge, the Purchaser B and the individual registered shareholder of SHJT who holds 1% equity interest in SHJT on behalf of Hao Ge ("the Nominee Shareholder") entered into a nominee equity transfer agreement for the disposal of the beneficial ownership of 1% of equity interest in SHJT, which is registered in the name of the Nominee Shareholder and held on behalf of Hao Ge, to the Purchaser B for a consideration of RMB80,000.

SHJT is a 51% owned subsidiary of the Group principally engaged in the provision of offline health and wellness services through operation of a mid- tier wellness centre in Beijing, the PRC.

The disposal transaction was completed on 31 May 2018.

Analysis of net gain on disposal of SHJT:

	Five months ended 31 May 2018 (Unaudited) HK$'000
Cash consideration	4,991
Property, plant and equipment disposed of	(298)
Net assets disposed of	(2,072)
Non-controlling interest disposed of	419
	3,040
Release of exchange reserve upon disposal	148
Gain on disposal	3,188

21. DISPOSAL OF A SUBSIDIARY *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Analysis of net proceeds received from disposal of SHJT:

	As at 31 May 2018 (Unaudited) HK$'000
Cash consideration	4,991
Less: cash and cash equivalents included in the subsidiary disposed of	(8,743)
	(3,752)

22. COMMITMENTS

(a) Operating lease commitments

The Group has future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2019 **(Unaudited)** **HK$'000**	31 December 2018 (Audited) HK$'000
Not later than one year	**645**	1,820

22. COMMITMENTS *(Continued)*

(b) Investment Commitments

At 30 June 2019 and 31 December 2018, total investment commitments in relation to certain film cooperation agreements entered into by the Group are analysed as follows:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Not later than one year	**44,505**	14,414
Later than one year and not later than five years	**–**	17,234
	44,505	31,648

23. RELATED PARTY TRANSACTIONS

On 2 May 2019, the Company and Huayi Brothers International Limited ("Huayi Brothers") entered into a cooperation framework agreement, pursuant to which the parties have agreed to cooperate in (i) investing in and carrying out media and entertainment projects; and (ii) engaging Huayi Brothers or its associated company to provide distribution services for certain media and entertainment projects which the Group owns or has acquired to distribution rights in the PRC. For details, please refer to the Company's circular dated 4 June 2019.

In December 2018, the Group and Huayi Brothers entered into the agreements for cooperation on the distribution of four films in the PRC, the total consideration for the distribution agreement is approximately HK$41,594,000. The amount is payable by the Group in several instalments. As at 30 June 2019, approximately of HK$9,870,000 (31 December 2018: HK$9,870,000) has been paid by the Group and recognized as film right and film production in progress.

24. CONTINGENT LIABILITIES

As at 30 June 2019, there are no material contingent liabilities to the Group (2018: Nil).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Zhongjun *(Chairman)*
Mr. CHENG Wu *(Vice Chairman)*
Mr. WANG Zhonglei
Mr. LIN Haifeng
Mr. HU Junyi
Mr. YUEN Hoi Po

Independent Non-Executive Directors

Dr. WONG Yau Kar, David, *GBS, JP*
Mr. YUEN Kin
Mr. CHU Yuguo

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. HAU Wai Man, Raymond

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank
The Hongkong and Shanghai Banking Corporation Limited
China Minsheng Bank
DBS Bank Ltd., Hong Kong Branch

SOLICITORS

Woo Kwan Lee & Lo
Guantao Law Firm

REGISTERED OFFICE

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

PRINCIPAL OFFICE IN HONG KONG

Suite 908, 9/F
Tower Two, Lippo Centre
89 Queensway, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.huayitencent.com