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Television Broadcasts Limited

電視廣播有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 00511

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual results announcement (the “Results Announcement”) and the annual report (the “Annual Report”) of Television Broadcasts Limited (the “TVB” or the “Company”, together with its subsidiaries, collectively the “Group”) for the year ended 31 December 2018. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the Annual Report and the Results Announcement, the Board would like to provide further information in relation to the qualified opinion (the “Qualified Opinion”) on the consolidated financial statements of the Group for the year ended 31 December 2018 issued by the auditor of the Company (the “Auditor”).

Basis of the Qualified Opinion

By way of background, the audit qualification originated from the two transactions whereby the Company subscribed US\$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 (the “Fixed Coupon Bonds”) and US\$83 million 7.5% secured redeemable convertible bonds due 2020 (the “Convertible Bonds”) (or collectively “Bonds”), both issued by SMI Holdings Group Limited (“SMI”, and together with SMI’s subsidiaries hereinafter referred to as “SMI Group”), with the Convertible Bonds being secured by a share charge over 100% of the issued share capital of SMI International Cinemas Limited (“SMI International”), which in turn owns 41.34% of Chengdu Runyun group according to the annual report of SMI for the year ended 31 December 2017.

As set out in note 13(b) of the Annual Report, an impairment loss amounted to HK\$180 million was made in respect of the Fixed Coupon Bonds which represented the full impairment charge for the Fixed Coupon Bonds after the Company performed an impairment assessment using the lifetime expected credit loss model.

As set out in note 14 of the Annual Report, the Company performed a fair value assessment of the Convertible Bonds after taking into account the suspension of the trading of SMI’s shares which occurred on 3 September 2018. The suspension in trading, which is still in force, triggered an event of default for the Convertible Bonds. Management engaged an independent firm of professionally qualified valuers to perform a valuation of the Chengdu Runyun group using a discounted cash flow model. Based on the fair value assessment, the Group recognised

a fair value loss of HK\$320 million on the Convertible Bonds. As at 31 December 2018, the written down carrying value (after fair value loss of HK\$320 million) of the Convertible Bonds was HK\$330 million.

The impairment assessment used key inputs based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors in view of SMI's announcements.

During the course of the audit, the Auditor considered that they were unable to obtain sufficient appropriate audit evidence regarding the impairment assessment and the fair value assessment placed on the Fixed Coupon Bond and the Convertible Bond respectively. At the time of preparing the Annual Report and the Results Announcement, certain critical financial information in relation to SMI for the year ended 31 December 2018 was not available to the Company.

As stated on page 62 of the Results Announcement, the Directors had relied on and adopted certain key operating assumptions provided by SMI in its assessment of SMI Group and the Chengdu Runyun group. These key assumptions were unaudited and SMI had not published its results announcement for the year ended 31 December 2018. The Company could only rely on Chengdu Runyun's 2018 forecast figures and the SMI's key operating assumptions as a basis to project the valuation of the fair value of SMI Group and Chengdu Runyun group.

In view of the foregoing, the Directors considered that the information used in the fair value assessment represented the best available estimates at the material time. The lack of latest audited financial and other information of SMI Group and Chengdu Runyun group (including the extent of its liabilities and pledge of its assets against borrowings or its status of operations as at 31 December 2018) rendered the Company unable to provide "other sources of information" to the Auditor, and consequently the Auditor considered that they were unable to obtain sufficient appropriate audit evidence to assess or corroborate the appropriateness of the key inputs and key operating assumptions adopted by the Company in its assessments.

More specifically, details of the information/documents that cannot be obtained by the Auditor and the "other sources of information" which cannot be obtained as an alternative source of information at the time of the audit of the financial statements for the year ended 31 December 2018 included, but not limited to:-

- **Details of the information/documents that cannot be obtained by the Auditor:**

(i) the latest audited results or audited financial information of SMI, SMI International, Chengdu Runyun group as at and for the year ended 31 December 2018; (ii) the latest equity interest of SMI International in Chengdu Runyun; (iii) other evidence to assess the current status and extent of SMI Group's pledge of assets, extent of its borrowings and the status of its debt restructuring; and (iv) other key operating assumptions about SMI Group and Chengdu Runyun group.

- **Other sources of information:**

(i) SMI's unaudited management accounts for the year ended 31 December 2018 as an alternative source for the Directors to assess the latest financial position of SMI and the recoverability of Fixed Coupon Bonds; and (ii) SMI International and Chengdu Runyun group's unaudited management accounts for the year ended 31 December 2018 as an alternative source for the Company to assess the latest financial position of SMI International and Chengdu Runyun group as at 31 December 2018.

During the Audit Committee's review of the Company's financial statements for the year ended 31 December 2018, the Audit Committee concurred with the accounting treatment adopted by the Company in performing the fair value assessment of SMI Group and Chengdu Runyun group which was based on the best available estimates at the material time. This treatment was also accepted by the Directors during the Board's consideration of the Results Announcement for the year ended 31 December 2018. The Audit Committee and the Directors are in agreement with the Auditor on their expression of the qualified opinion on the financial statements for the year ended 31 December 2018.

Overcoming possibility of future Qualified Opinions

The Special Taskforce of the Board (the "Special Taskforce") discussed this matter with the Auditor at a meeting convened on 29 May 2019. The Special Taskforce understood the Auditor's position, that is, without at least the current financial information and the audited financial information for the year ended 31 December 2018 from SMI, the Auditor would be unable to ascertain the carrying value of the Fixed Coupon Bonds or the fair value of the Convertible Bonds, for the purposes of their audit of financial positions of the Group.

However, as the efforts to explore recovery of the investment amounts in the Bonds continue, the Special Taskforce and the Auditor agreed that any resolution for overcoming possibility of future qualified opinions would depend on progress of the recovery efforts, the accounting treatment for which may call for different sets of supporting financial information.

Management of the Company, under the direction of the Special Taskforce, is working to recover the amounts invested in the Bonds, and to address the issue of the audit qualifications, so that moving forward, such qualifications may be removed. Specific matters under consideration by the Special Taskforce include:

- (a) Further demands to SMI for outstanding information, including but not limited to, audited financial statements for the year ended 31 December 2018 and unaudited management accounts of the most recent period;
- (b) Possible sale of the Bonds or the collaterals given to the Company to interested buyer(s);
- (c) Acceleration of terms of the Bonds including the issue of a statutory demand notice against SMI and a winding up of SMI;
- (d) Consideration of any debt restructuring proposal(s) from SMI.

Role of the Special Taskforce

Reference is made to the Results Announcement at page 38 where it was noted that a Special Taskforce has been formed to consider all available options in recovering amounts invested in the Bonds. The Special Taskforce comprises: Independent Non-Executive Directors Professor Caroline Wang Chia-Ling, Dr. Allan Zeman; Non-Executive Director Anthony Lee Hsien Pin and Executive Director Thomas Hui To.

The objective of the Special Taskforce remains the same as that outlined in the Results Announcement which is to consider all available options in recovering the amounts invested in the Bonds. The Special Taskforce has retained the services of Mayer Brown and Ernst & Young to assist it with its deliberations and to provide it with specialist legal and accounting expertise. Through these advisers, the Special Taskforce had submitted requests for further information from SMI concerning the SMI Group, including its audited financial statements for the year

ended 31 December 2018; the latest available financial information subsequent to the year then ended; details of its debt restructuring proposals; the latest shareholding structure of the SMI Group; details of the PRC Share Pledges as referred to in the Company's announcement dated 14 May 2019. To date, SMI has not adequately addressed the information requested.

In addition, the Special Taskforce had urged SMI to hold meetings with its creditors collectively, in order to progress the debt restructuring proposals. The Special Taskforce was initially informed that a meeting of creditors would be held in early May 2019, but was subsequently informed that it was cancelled as SMI could not coordinate a time to suit all parties. SMI's intention has since become to hold bilateral discussions, but to date, such discussions have not taken place with TVB. TVB is unaware if SMI has held bilateral discussions with other creditors.

The Special Taskforce considers that the information requested is required for it to assess the recoverability of the Bonds.

The Special Taskforce will continue to press for meetings with SMI and other creditors and to explore all options available for recovery of the Bonds, including the matters set out in the section headed "Overcoming possibility of future Qualified Opinions".

Further announcements will be made to keep the Exchange, shareholders of the Company and market participants informed of the developments.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 13 June 2019

As at the date of this announcement, the Board of the Company comprises:

Chairman and Non-executive Director

Dr. Charles CHAN Kwok Keung

Vice Chairman and Non-executive Director

LI Ruigang

Executive Directors

Mark LEE Po On Group Chief Executive Officer

CHEONG Shin Keong General Manager

Thomas HUI To

Non-executive Directors

Anthony LEE Hsien Pin

CHEN Wen Chi

Independent Non-executive Directors

Dr. Raymond OR Ching Fai SBS, JP

Dr. William LO Wing Yan JP

Professor Caroline WANG Chia-Ling

Dr. Allan ZEMAN GBM, GBS, JP