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H.BROTHERS | ENTERTAINMENT

華 誼 騰 訊 娛 樂

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: 419)

ANNOUNCEMENT OF INTERIM RESULTS

HIGHLIGHTS

	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)

- Loss for the six months ended 30 June 2019 has been narrowed down by 63% to approximately HK\$8,653,000 (2018: HK\$23,459,000), due to the strong financial performance of HB Entertainment, an associate of the Group engaging in TV drama production and artist management in South Korea, and the significant reduction in administrative expenses during the period. As at 30 June 2019, the Group has cash and cash equivalents amounting to approximately HK\$347 million.
- The Group has entered into a Cooperation Framework Agreement with Huayi Brothers during the period, pursuant to which the Group will collaborate with the Huayi Brothers Group 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.
- 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* 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 movie had already begun in July and the movie is expected to be screened in the summer of 2020. Including *Space Sweepers*, the Group expects that there will be at least three to four of its films screened worldwide and in the PRC during the upcoming 18 months, as a result the revenue and scale of the Entertainment and Media Operations of the Group is expected to be bolstered significantly by then.

The board of directors (the “Board”) of Huayi Tencent Entertainment Company Limited (the “Company”) is pleased to present the condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018. The condensed consolidated interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Continuing Operations			
Revenue and film investment income	6	47,625	58,084
Interest revenue calculated using the effective interest method	6	451	—
	6	48,076	58,084
Cost of sales		(30,024)	(38,450)
Gross profit		18,052	19,634
Other income and other gains, net	6	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)
		<i>HK cents</i>	<i>HK cents</i>
<i>Note</i>			
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		<u>—</u>	<u>—</u>
		<u>(0.06)</u>	<u>(0.18)</u>

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	<u>(8,653)</u>	<u>(23,459)</u>
Other comprehensive (loss)/income:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>(2,812)</u>	<u>529</u>
Other comprehensive (loss)/income for the period, net of tax	<u>(2,812)</u>	<u>529</u>
Total comprehensive loss for the period	<u><u>(11,465)</u></u>	<u><u>(22,930)</u></u>
Total comprehensive loss attributable to:		
Equity holders of the Company		
— continuing operations	(11,465)	(21,243)
— discontinued operation	<u>—</u>	<u>(2,260)</u>
	<u>(11,465)</u>	<u>(23,503)</u>
Non-controlling interest		
— continuing operation	<u>—</u>	<u>573</u>
	<u><u>(11,465)</u></u>	<u><u>(22,930)</u></u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2019

		30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	<i>Note</i>		
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		<u>–</u>	<u>16,200</u>
		<u>465,544</u>	<u>433,959</u>
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		<u>346,547</u>	<u>362,490</u>
		<u>722,393</u>	<u>446,905</u>
Total assets		<u><u>1,187,937</u></u>	<u><u>880,864</u></u>

		30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	<i>Note</i>		
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
		<u> </u>	<u> </u>
Total equity		857,327	868,792
		<u> </u>	<u> </u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		880	282
		<u> </u>	<u> </u>
		880	282
		<u> </u>	<u> </u>
Current liabilities			
Other payables and accrued liabilities		11,496	11,790
Other borrowings	18	318,234	–
		<u> </u>	<u> </u>
		329,730	11,790
		<u> </u>	<u> </u>
Total liabilities		330,610	12,072
		<u> </u>	<u> </u>
Total equity and liabilities		1,187,937	880,864
		<u> </u>	<u> </u>

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	<u>56,951</u>	<u>(3,752)</u>
Net cash generated from/(used in) investing activities	<u>59,105</u>	<u>(95,702)</u>
Cash flows from financing activities		
Proceeds from other borrowings	323,803	–
Increase in pledged deposits	<u>(331,261)</u>	<u>–</u>
Net cash used in financing activities	<u>(7,458)</u>	<u>–</u>
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	<u>(609)</u>	<u>(698)</u>
Cash and cash equivalents at 30 June	<u><u>346,547</u></u>	<u><u>113,491</u></u>
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	<u>–</u>	<u>(49)</u>
	<u><u>346,547</u></u>	<u><u>113,442</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	(Unaudited)								
	Attributable to equity holders of the Company						Non-Controlling Interest	Total	
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Currency translation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>269,962</u>	<u>1,213,484</u>	<u>860,640</u>	<u>1,206</u>	<u>(10,135)</u>	<u>(1,477,830)</u>	<u>857,327</u>	<u>-</u>	<u>857,327</u>

	(Unaudited)									
	Attributable to equity holders of the Company						Non-Controlling Interest	Total		
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Available-for-sale financial assets	Currency translation reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>269,962</u>	<u>1,213,484</u>	<u>860,640</u>	<u>1,206</u>	<u>-</u>	<u>74,261</u>	<u>(1,566,944)</u>	<u>852,609</u>	<u>-</u>	<u>852,609</u>

NOTES TO THE 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

(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.

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	<u>(1,820)</u>
Lease liability recognized as at 1 January 2019	<u><u>–</u></u>

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.

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.

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.

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. 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).

(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	<u>451</u>	<u>—</u>	<u>451</u>
	<u>451</u>	<u>47,625</u>	<u>48,076</u>
Share of result of an associate	<u>5,221</u>	<u>—</u>	<u>5,221</u>
Segment results	<u>5,015</u>	<u>(3,736)</u>	1,279
Exchange losses, net			(182)
Unallocated expenses, net			<u>(9,018)</u>
			(7,921)
Finance costs, net			<u>(112)</u>
Loss before taxation			(8,033)
Taxation			<u>(620)</u>
Loss for the period			(8,653)
Non-controlling interest			<u>—</u>
Loss for the period attributable to equity holders of the Company			<u>(8,653)</u>

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

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

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

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) <i>HK\$'000</i>	Offline healthcare and wellness service (Unaudited) <i>HK\$'000</i>	Total continuing operations (Unaudited) <i>HK\$'000</i>
At 31 December 2018			
Segment assets	411,483	50,505	461,988
Unallocated assets			<u>418,876</u>
Total assets			<u><u>880,864</u></u>
Segment liabilities	282	5,847	6,129
Unallocated liabilities			<u>5,943</u>
Total liabilities			<u><u>12,072</u></u>
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	<u>—</u>	<u>3</u>	<u>3</u>

(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
	<u>48,076</u>	<u>58,084</u>	<u>181,440</u>	<u>152,004</u>

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.

6. 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 (Unaudited) HK\$'000	2018 (Unaudited) 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
	<u>48,076</u>	<u>58,084</u>

	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
	<u>1,992</u>	<u>126</u>

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)
	<u>(6,722)</u>	<u>(54)</u>
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
	<u>6,610</u>	<u>43</u>
Finance cost, net	<u>(112)</u>	<u>(11)</u>

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 (<i>Note 12</i>)	1,168	2,404
Amortization of film right (<i>Note 13</i>)	–	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
	<u>7,069</u>	<u>8,987</u>

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	<u>620</u>	<u>76</u>
Income tax expense	<u>620</u>	<u>76</u>

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)	<u>(0.06)</u>	<u>(0.18)</u>
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)	<u>–</u>	<u>–</u>
Basic loss per share attributable to equity holders of the Company (HK cents per share)	<u>(0.06)</u>	<u>(0.18)</u>

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, and 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	<u>331</u>	<u>1,444</u>	<u>1,091</u>	<u>217</u>	<u>2,415</u>	<u>5,498</u>
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	<u>580</u>	<u>1,690</u>	<u>1,276</u>	<u>927</u>	<u>2,265</u>	<u>6,738</u>

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 (Unaudited) HK\$'000	Film production in progress (Unaudited) HK\$'000	Total (Unaudited) 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	<u>1,170</u>	<u>147,772</u>	<u>148,942</u>
At 30 June 2019			
Cost	125,931	147,772	273,703
Accumulated amortization	(37,262)	–	(37,262)
Impairment	<u>(87,499)</u>	<u>–</u>	<u>(87,499)</u>
Net book amount	<u><u>1,170</u></u>	<u><u>147,772</u></u>	<u><u>148,942</u></u>
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	<u>2,751</u>	<u>119,658</u>	<u>122,409</u>
At 30 June 2018			
Cost	124,761	119,658	244,419
Accumulated amortization	(36,764)	–	(36,764)
Impairment	<u>(85,246)</u>	<u>–</u>	<u>(85,246)</u>
Net book amount	<u><u>2,751</u></u>	<u><u>119,658</u></u>	<u><u>122,409</u></u>

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) HK\$'000	(Unaudited) 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)
	<u>–</u>	<u>–</u>
At 30 June	<u>35,251</u>	<u>–</u>

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	<u>5,316</u>	<u>5,973</u>

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.

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 (<i>Note</i>)	8,333	(8,373)
Loss allowance	<u>(8,333)</u>	<u>(8,373)</u>
	<u>–</u>	<u>–</u>

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
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Current

Other borrowings (<i>Note</i>)	<u>318,234</u>	<u>–</u>
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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		Total
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000	HK\$'000
Authorized:					
At 30 June 2019 (Unaudited)	<u>150,000,000</u>	<u>3,000,000</u>	<u>240,760</u>	<u>2,408</u>	<u>3,002,408</u>
At 31 December 2018 (Audited)	<u>150,000,000</u>	<u>3,000,000</u>	<u>240,760</u>	<u>2,408</u>	<u>3,002,408</u>
Issued and fully paid:					
At 1 January 2019 and 30 June 2019 (Unaudited)	<u>13,498,107</u>	<u>269,962</u>	<u>–</u>	<u>–</u>	<u>269,962</u>
At 1 January 2018 and 30 June 2018 (Unaudited)	<u>13,498,107</u>	<u>269,962</u>	<u>–</u>	<u>–</u>	<u>269,962</u>

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.

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)

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	<u>419</u>
	3,040
Release of exchange reserve upon disposal	<u>148</u>
Gain on disposal	<u><u>3,188</u></u>

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	<u>(8,743)</u>
	<u><u>(3,752)</u></u>

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

(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 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).

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors is pleased to present the Group's interim results and condensed consolidated interim financial information for the six months ended 30 June 2019. The unaudited condensed consolidated financial information for the six months ended 30 June 2019 has been reviewed by the Company's Audit Committee and the Company's independent auditor 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.

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	<u>(8,653)</u>	<u>(23,407)</u>
Loss for the period from discontinued operation	<u>–</u>	<u>(52)</u>
Loss for the period	<u>(8,653)</u>	<u>(23,459)</u>

Business Review

	Revenue		Segment Results	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)

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.

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.

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.

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

(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.

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.

(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 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 RMB500 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 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.

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.

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.

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.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 of the Group 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”) 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.huayitencent.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The interim report of the Company for 2019 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our employees for their diligence and dedication to the Group. We also thank our shareholders, customers, banks and business partners for their continuous support.

By Order of the Board
Huayi Tencent Entertainment Company Limited
WANG Zhongjun
Chairman

Hong Kong, 28 August 2019

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

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