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Starrise Media Holdings Limited

星宏傳媒控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

**UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

SUMMARY

- Revenue was approximately RMB461.2 million for the Period Under Review, representing an increase of approximately 11.4% as compared to approximately RMB413.9 million recorded for the corresponding period of last year.
- Gross profit was approximately RMB127.6 million for the Period Under Review, representing an increase of approximately RMB64.9 million, or approximately 103.5% as compared to that of the corresponding period of last year.
- Gross profit margin was approximately 27.7%, representing an increase of approximately 12.6 percentage points as compared to approximately 15.1% recorded for the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company was approximately RMB29.2 million, representing an increase of approximately RMB121.9 million as compared to the loss attributable to the equity shareholders of the Company of approximately RMB92.7 million for the corresponding period of last year.

The board of directors (the “**Board**”) of Starrise Media Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 (the “**Period Under Review**”) together with the comparative figures for the corresponding period in 2018 and the relevant explanatory notes as set out below. The consolidated interim results are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	<i>Note</i>	RMB’000	<i>(Note)</i> RMB’000
Revenue	3	461,189	413,897
Cost of sales and services		(333,600)	(351,196)
Gross profit		127,589	62,701
Other net losses	4	(24,030)	(52,280)
Distribution costs		(8,827)	(14,579)
Administrative expenses		(39,708)	(38,784)
Profit/(loss) from operations		55,024	(42,942)
Net finance costs	5(a)	(19,809)	(42,894)
Profit/(loss) before taxation		35,215	(85,836)
Income tax	6	(6,123)	(5,995)
Profit/(loss) and total comprehensive income for the period		29,092	(91,831)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			<i>(Note)</i>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:			
Equity shareholders of the Company		29,173	(92,738)
Non-controlling interests		(81)	907
Profit/(loss) and total comprehensive income for the period		<u>29,092</u>	<u>(91,831)</u>
Earnings/(losses) per share (<i>RMB cents</i>)			
	<i>7</i>		
Basic and diluted		<u>2.17</u>	<u>(7.64)</u>

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – unaudited

(Expressed in Renminbi)

		At 30 June 2019	At 31 December 2018
	<i>Note</i>	<i>RMB'000</i>	<i>(Note) RMB'000</i>
Non-current assets			
Property, plant and equipment	8	501,670	492,702
Intangible assets		1,150	1,069
Goodwill		441,475	441,475
Interest in an associate		–	–
Other receivables	9	11,059	10,799
Deferred tax assets		2,351	1,786
		<u>957,705</u>	<u>947,831</u>
Current assets			
Inventories		141,447	140,120
Drama series and films		186,133	224,958
Trade and other receivables	9	642,623	500,480
Pledged bank deposits	10	7,246	11,000
Cash and cash equivalents	11	243,956	284,689
		<u>1,221,405</u>	<u>1,161,247</u>
Current liabilities			
Trade and other payables	12	257,567	268,954
Contract liabilities		13,818	11,233
Bank loans		172,350	180,500
Other borrowings	13	480,532	434,480
Lease liabilities		17,085	12,201
Current taxation		31,223	27,776
		<u>972,575</u>	<u>935,144</u>
Net current assets		<u>248,830</u>	<u>226,103</u>
Total assets less current liabilities		<u>1,206,535</u>	<u>1,173,934</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019 – unaudited

(Expressed in Renminbi)

		At 30 June 2019	At 31 December 2018
	<i>Note</i>	<i>RMB'000</i>	<i>(Note)</i> <i>RMB'000</i>
Non-current liabilities			
Other borrowings	13	–	206,345
Lease liabilities		25,813	11,973
Deferred tax liabilities		5,226	3,101
Deferred income		10,067	–
		<u>41,106</u>	<u>221,419</u>
Net assets		<u>1,165,429</u>	<u>952,515</u>
Capital and reserves			
Share capital	14(b)	90,578	79,730
Reserves		1,075,339	873,192
Total equity attributable to equity shareholders of the Company		<u>1,165,917</u>	<u>952,922</u>
Non-controlling interests		<u>(488)</u>	<u>(407)</u>
Total equity		<u>1,165,429</u>	<u>952,515</u>

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserve	Other reserve	Retained earnings	Total		
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	66,559	523,284	66,095	118,450	235,008	1,009,396	8,561	1,017,957
Change in equity for the six months ended 30 June 2018:								
Loss and total comprehensive income for the period	–	–	–	–	(92,738)	(92,738)	907	(91,831)
Shares issuance	13,171	111,145	–	–	–	124,316	–	124,316
Balance at 30 June 2018	<u>79,730</u>	<u>634,429</u>	<u>66,095</u>	<u>118,450</u>	<u>142,270</u>	<u>1,040,974</u>	<u>9,468</u>	<u>1,050,442</u>
Balance at 1 January 2019	79,730	634,429	75,792	82,385	80,586	952,922	(407)	952,515
Change in equity for the six months ended 30 June 2019:								
Profit and total comprehensive income for the period	–	–	–	–	29,173	29,173	(81)	29,092
Shares issuance 14(b)	<u>10,848</u>	<u>172,974</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>183,822</u>	<u>–</u>	<u>183,822</u>
Balance at 30 June 2019	<u>90,578</u>	<u>807,403</u>	<u>75,792</u>	<u>82,385</u>	<u>109,759</u>	<u>1,165,917</u>	<u>(488)</u>	<u>1,165,429</u>

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	RMB'000	RMB'000
Operating activities			
Cash (used in)/generated from operations		(91,968)	79,077
Tax paid		(1,114)	(419)
Net cash (used in)/generated from operating activities		(93,082)	78,658
Investing activities			
Acquisition of a subsidiary		–	(30,000)
Disposal of subsidiaries, net of cash and cash equivalents disposed of		–	116,160
Disposal of an associate		–	6,000
Payments for the purchase of property, plant and equipment and intangible assets		(7,577)	(62,895)
Other cash flows arising from investing activities		105,527	39,049
Net cash generated from investing activities		97,950	68,314
Financing activities			
Proceeds from shares issuance		–	124,316
Proceeds from issuance of bonds		–	191,331
Payments for redemption of convertible bonds		–	(177,855)
Other cash flows arising from financing activities		(45,900)	(2,545)
Net cash (used in)/generated from financing activities		(45,900)	135,247
Net (decrease)/increase in cash and cash equivalents		(41,032)	282,219
Cash and cash equivalents at 1 January	11	284,689	155,598
Effect of foreign exchange rate change		299	13,560
Cash and cash equivalents at 30 June	11	243,956	451,377

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 29 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases – incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Total	
For the six months ended 30 June	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Sales of textile products	233,356	282,369
– Licensing of drama series and films	157,250	55,073
– Provision of textile products processing service	7,556	19,548
– Provision of drama series and films production, distribution and related services	63,027	56,907
	461,189	413,897

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Textile		Media		Total	
For the six months ended 30 June	2019	2018	2019	2018	2019	2018
		(Note)		(Note)		(Note)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregated by timing of revenue recognition						
Point in time	233,356	282,369	178,665	58,053	412,021	340,422
Over time	7,556	19,548	41,612	53,927	49,168	73,475
Revenue from external customers	240,912	301,917	220,277	111,980	461,189	413,897
Inter-segment revenue	—	—	—	—	—	—
Reportable segment revenue	240,912	301,917	220,277	111,980	461,189	413,897
Reportable segment result (adjusted profit/(loss) before taxes)	(3,827)	11,510	84,523	(2,686)	80,696	8,824
Reportable segment assets	709,720	775,538	1,446,674	1,215,637	2,156,394	1,991,175
Reportable segment liabilities	273,082	305,993	244,043	150,683	517,125	456,676

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

3 REVENUE AND SEGMENT REPORTING (continued)

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019 <i>RMB'000</i>	2018 (Note) <i>RMB'000</i>
Reportable segment profit	80,696	8,824
Elimination of inter-segment profits	—	—
Reportable segment profit derived from the Group's external customers	80,696	8,824
Interest on convertible bonds	(14,872)	(39,505)
Interest on bonds	(6,063)	(1,665)
Change in fair value of derivatives embedded in convertible bonds	(26,518)	(57,747)
Gain on redemption of convertible bonds	—	569
Unallocated head office and corporate income/(expenses) (net)	1,972	3,688
Consolidated profit/(loss) before taxation	35,215	(85,836)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4 OTHER NET LOSSES

	Six months ended 30 June	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Change in fair value of derivatives embedded in convertible bonds	(26,518)	(57,747)
Gain on redemption of convertible bonds	—	569
Net gains on sale of raw materials and scrap materials	—	334
Net gains on disposal of equipments	3	2,527
Government grants	1,329	1,928
Others	1,156	109
	(24,030)	(52,280)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2019	2018 (Note)
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans and other borrowings	5,881	6,229
Interest on convertible bonds	14,872	39,505
Interest on bonds	6,063	1,665
Net foreign exchange gains	(3,136)	(5,516)
Interest on lease liabilities	1,090	965
Interest income on financial assets	(5,754)	(828)
Other finance charges	793	874
	19,809	42,894

(b) Other items

	Six months ended 30 June	
	2019	2018 (Note)
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation on intangible assets	79	61
Depreciation	27,354	21,694
Impairment losses		
– trade and other receivables	2,257	3,732
– drama series and films	–	6,684
– inventories	–	273

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	4,563	6,162
Deferred tax	1,560	(167)
	6,123	5,995

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.
- (ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the six months ended 30 June 2019 and 2018, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.
- (iii) The Group's PRC subsidiaries are subject to income tax rate of 25% (2018: 25%).
- (iv) Dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd., Star Rise Investments Ltd. and Star Will Investments (HK) Ltd., Hong Kong subsidiaries of the Company, would be subject to PRC dividend withholding tax on dividends receivable from their PRC subsidiaries.
- (v) Pursuant to the PRC Enterprise Income Tax preferential policies in Horgos of Xinjiang province, Horgos Star Rise Culture Media Co., Ltd., Horgos Yingsheng Film and TV Culture Co., Ltd. and Horgos Star Rise Dacheng Culture Development Co., Ltd., subsidiaries of the Company located in Horgos of Xinjiang province and are principally engaged in the production and distribution of television drama series, are entitled to a tax holiday of 5-year full exemption on Enterprise Income Tax commencing from the first revenue-generating year. For Horgos Star Rise Culture Media Co., Ltd. and Horgos Yingsheng Film and TV Culture Co., Ltd., the first exemption year is 2016. For Horgos Star Rise Dacheng Culture Development Co., Ltd., the first exemption year is 2017.

7 EARNINGS/(LOSSES) PER SHARE

The calculation of basic earnings/(losses) per share is based on the profit attributable to ordinary equity shareholders of the parent of approximately RMB29.2 million (six months ended 30 June 2018: loss of approximately RMB92.7 million) and the weighted average of 1,344,907,156 ordinary shares (2018: 1,214,335,291 shares) in issue during the interim period.

For the six months ended 30 June 2019 and 2018, no adjustment is made in relation to the Company's outstanding convertible bonds as their assumed conversion would increase the basic profit per share (six months ended 30 June 2018: decrease the basic loss per share).

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets.

(b) Acquisitions and disposal of owned assets

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of approximately RMB9.0 million (six months ended 30 June 2018: approximately RMB52.2 million). Items of machinery with a net book value of approximately RMB82,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB7.8 million), resulting in gains on disposal of approximately RMB3,000 (six months ended 30 June 2018: gains on disposal of approximately RMB2.5 million).

9 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current	301,589	241,982
Less than 3 months past due	98,931	4,603
3 to 6 months past due	50,761	1,742
6 to 12 months past due	–	2,011
Over 1 year past due	1,527	875
Trade debtors and bills receivable, net of loss allowance	452,808	251,213
Value-added tax recoverable	–	672
Advance to third parties	22,118	127,287
Amount due from an associate	21,538	23,961
Others	9,859	7,570
Financial assets measured at amortised cost	506,323	410,703
Prepayments relating to purchases of raw materials	8,392	5,449
Prepayments and advance relating to drama series and films	134,541	90,261
Prepayments relating to purchases of property, plant and equipment	22	1,071
Deferred expense	4,404	3,795
	653,682	511,279
Other receivables expected to be collected or recognised as expense after more than one year	(11,059)	(10,799)
Trade and other receivables expected to be recovered or recognised as expense within one year	642,623	500,480

Trade debtors and bills receivable are due within 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.

10 PLEDGED BANK DEPOSITS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Guarantee deposits for issuance of commercial bills and bank acceptance	<u>7,246</u>	<u>11,000</u>

11 CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank deposits	243,863	282,658
Cash in hand	<u>93</u>	<u>2,031</u>
	<u>243,956</u>	<u>284,689</u>

12 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Due within 3 months or on demand	27,648	33,860
Due after 3 months but within 6 months	3,790	8,275
Due after 6 months but within 12 months	<u>1,746</u>	<u>3,785</u>
Trade creditors and bills payable	33,184	45,920
Advance from third parties (<i>Note (i)</i>)	22,872	24,000
Payables relating to drama series and films	95,271	88,055
Taxes payable other than income tax	39,597	36,085
Receipts in advance	25,575	29,439
Accrued charges	16,685	19,351
Other payables	15,585	17,817
Payables relating to purchases of property, plant and equipment	<u>8,798</u>	<u>8,287</u>
	<u>257,567</u>	<u>268,954</u>

Note (i): Included in the advanced from third parties are advance of RMB22.9 million (31 December 2018: RMB24.0 million) from third parties which are unsecured, interest bearing at 8% per annum and repayable within one year. Other advances from third parties are unsecured, interest-free and had no fixed repayment terms or repayable within one year.

13 OTHER BORROWINGS

(a) The analysis of the carrying amount of other borrowings is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Convertible bonds (<i>note 13(b)(i)</i>)		
– liability component	154,665	253,898
– derivative component	118,006	172,611
	<u>272,671</u>	<u>426,509</u>
Bonds (<i>note 13(b)(ii)</i>)	<u>207,861</u>	<u>214,316</u>
	480,532	640,825
Amount expected to be settled within one year	<u>(480,532)</u>	<u>(434,480)</u>
Amount expected to be settled after one year	<u>–</u>	<u>206,345</u>

Except for the derivative component of convertible bonds, which is carried at fair value, all of the other non-current borrowings are carried at amortised cost.

(b) Significant terms and repayment schedule of non-current borrowings

(i) **2017 Convertible Bonds**

On 28 February 2017, the Company issued convertible bonds with a face value of HKD300,000,000 and a maturity date on 28 February 2019, which is extendable to 28 February 2020, 28 February 2021 or 28 February 2022 if agreed by the Company and the bondholder. The convertible bonds bear a nominal interest rate at 5% per annum and are guaranteed by Liu Zhihua, a shareholder of the Company.

The rights of the bondholders to convert the bonds into ordinary shares are as follows:

- Conversion rights are exercisable, wholly or partially, at any time up to maturity, or extended maturity, at the bondholders' option.
- If a bondholder exercises its conversion rights, the Company is required to deliver ordinary shares at the conversion price of HKD1.21 per share, which was adjusted to HKD0.74 per share (subject to further adjustments).

Bonds in respect of which conversion rights have not been exercised, will be redeemed at face value on 28 February 2019 or, if agreed to extend by the Company and the bondholder, on 28 February 2020, 28 February 2021 or 28 February 2022.

The convertible bonds contain two components, i.e. host liability component and derivative liability component. The effective interest rate of the host liability component is 22% per annum. The derivatives liability component of the convertible bonds is measured at fair value with changes in fair value recognised in the profit or loss.

13 OTHER BORROWINGS (continued)

(b) Significant terms and repayment schedule of non-current borrowings (continued)

(i) 2017 Convertible Bonds (continued)

On 25 February 2019, Dragon Capital Entertainment Fund One LP (the “Original Bondholder”) transferred the convertible bonds with an aggregate face value of HKD120,000,000, which were convertible into 162,162,162 ordinary shares at the conversion price of HKD0.74 per share, to BeiTai Investment LP (“BeiTai”). On 28 February 2019, BeiTai exercised the conversion rights to convert the bonds with a face value of HKD120,000,000 at the conversion price of HKD 0.74 per share.

On 28 February 2019, the Company and the Original Bondholder agreed to extend the maturity date of the remaining convertible bonds with an aggregate face value of HKD180,000,000 from 28 February 2019 to 28 February 2020. The effective interest rate of the host liability component is 12% per annum for the extended bonds.

(ii) 2018 Bonds

On 10 May 2018, the Company issued bonds with a face value of HKD235,500,000 and a maturity date on 9 May 2020, which is extendable to 9 May 2021, 9 May 2022 or 9 May 2023 if agreed by the Company and Bison Global Investment SPC (the “bondholders”). The bonds bear a nominal interest rate at 6% per annum and the interest is payable annually in arrears.

On 1 August 2019, the Company and the bondholders agreed to extend the maturity date of the bonds with an aggregate face value of HKD235,000,000 from 9 May 2020 to 9 March 2021.

14 CAPITAL AND DIVIDENDS

(a) Dividends

Dividend payable to equity shareholders attributable to the interim period

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Interim dividend declared after the interim period	—	—

Dividend payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period	—	—

14 CAPITAL AND DIVIDENDS (continued)

(b) Share capital

	At 30 June 2019		At 31 December 2018	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Authorised:				
Ordinary shares of USD0.01 each	<u>10,000,000,000</u>	<u>632,110</u>	<u>10,000,000,000</u>	<u>632,110</u>
Ordinary shares, issued and fully paid:				
At 1 January	1,254,749,656	79,730	1,045,749,656	66,559
Share issuance (<i>Note</i>)	<u>162,162,162</u>	<u>10,848</u>	<u>209,000,000</u>	<u>13,171</u>
At 30 June and 31 December	<u>1,416,911,818</u>	<u>90,578</u>	<u>1,254,749,656</u>	<u>79,730</u>

Note: On 28 February 2019, BeiTai exercised the conversion rights to convert the bonds with a face value of HKD120,000,000 into 162,162,162 ordinary shares of USD0.01 each at the conversion price of HKD0.74 per share.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments, including derivatives embedded in convertible bonds which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held to coincide with the reporting dates twice a year.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(i) Fair value hierarchy (continued)

	Fair value at 30 June 2019 <i>RMB'000</i>	Fair value measurements as at 30 June 2019 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurements				
Derivatives embedded in convertible bonds	118,006	–	–	118,006
	Fair value at 31 December 2018 <i>RMB'000</i>	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurements				
Derivatives embedded in convertible bonds	172,611	–	–	172,611

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Derivatives embedded in convertible bonds	Black Scholes model	Expected volatility	23% to 32% (2018: 13% to 39%)	27% (2018: 29%)

The fair value of the derivatives embedded in the convertible bonds is determined using Black Scholes model and the significant input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would not have material impact on the Group's profit for the period (2018: increased/decreased the Group's loss for the period by RMB6,448,000/RMB4,095,000).

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(ii) Information about Level 3 fair value measurements (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Derivatives embedded in convertible bonds:		
At 1 January	172,611	1,363
Change in fair value recognised in profit or loss for the period	26,518	57,747
Derecognition on redemption	–	(5,335)
Derecognition on conversion	(75,907)	–
Exchange adjustments	(5,216)	6
	<u>118,006</u>	<u>53,781</u>
At 30 June	<u>118,006</u>	<u>53,781</u>
Total losses for the period included in profit or loss	<u>21,302</u>	<u>57,753</u>

The losses arising from the remeasurement of the derivative component of the convertible bonds are presented in “other net losses” in the consolidated statement of profit or loss.

(b) Fair value of financial liabilities carried at other than fair value

The carrying amounts of the Group’s financial instrument carried at cost or amortised cost were not materially different from their fair values as at 30 June 2019 and 31 December 2018 and except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2019		At 31 December 2018	
	Carrying amounts <i>RMB'000</i>	Fair value at <i>RMB'000</i>	Carrying amounts <i>RMB'000</i>	Fair value at <i>RMB'000</i>
Convertible bonds – liability component	<u>154,665</u>	<u>153,633</u>	<u>253,898</u>	<u>255,850</u>

16 COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2019 and 31 December 2018 not provided for in the interim financial report were as follows:

	At 30 June 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Contracted for		
– Purchases of property, plant and equipment	1,682	2,930
– Acquiring services relating to production of drama series and films	20,658	19,947
	<u>22,340</u>	<u>22,877</u>

- (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December 2018 <i>RMB'000</i>
Within 1 year	<u>2,375</u>

The Group is the lessee in respect of a number of office buildings held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

17 MATERIAL RELATED PARTY TRANSACTIONS

- (a) Key management personnel remuneration

	Six months ended 30 June 2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Short-term employee benefits	2,359	2,374
Post-employment benefits	50	44
	<u>2,409</u>	<u>2,418</u>

- (b) Transactions with related parties

	Six months ended 30 June 2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Provision of services	–	17

17 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

As at 30 June 2019 and 31 December 2018, the Group had the following balances with related parties:

		At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
	Note		
Amount due from an associate	(i) (ii)	<u>21,538</u>	<u>23,961</u>

Notes:

- (i) Loss allowance of RMB2,164,000 (2018: RMB2,198,000) have been made in respect of amount due from an associate as at 30 June 2019.
- (ii) The amounts are unsecured, interest-free and have no fixed term of repayments, which are included in "trade and other receivables" (note 9).

18 CONTINGENT LIABILITIES

As at 30 June 2019, the Group has issued guarantees in the aggregate amount of RMB20,000,000 in respect of loans made by banks to Zibo Huiyin Textile Co., Ltd. As at 30 June 2019, the directors do not consider it probable that claims will be made against the Group under any of the guarantees. The maximum liability of the Group at 30 June 2019 under the guarantees issued is the outstanding amount of the loans of Zibo Huiyin Textile Co., Ltd. of RMB20,000,000 (31 December 2018: RMB20,000,000).

19 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2. Certain comparative figures have been re-classified to conform to the current period's presentation.

20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ending 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to IAS 1 and IAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

For the first half of 2019, China's economic growth experienced a slowdown due to the domestic deleveraging campaign and US-China trade war. The gross domestic product (the "GDP") growth fell to a record low of 6.2% in the second quarter of 2019. Although certain economic stimulus policies have been implemented to reduce the downward pressure of domestic economy, China's economy was still facing a number of challenges.

The film and television drama industry in China remains challenging due to strict supervision by authorities and the increasing requirements from the audience. Since the successive outbreaks of a series of incidents such as the "dual contract arrangements" in May 2018, the tax issues in the film and television drama industry have received high attention. In addition, due to the strengthened regulatory control including more clear and detailed restrictions on film and television contents as well as the reduction in capital investments, the startup number of film and television projects had decreased significantly since the beginning of 2019 and many film and television dramas had been pulled from cinemas or delayed. The film and television drama industry remains under the pressure from the effects of the implementation of tax and other policies. In terms of film, despite the high overall film quality and audience satisfaction during the 2019 Lunar New Year holidays, the total box office in China during the 2019 Lunar New Year holidays was approximately RMB5.84 billion, representing a year-on-year decrease of approximately 12%. Furthermore, according to the statistics of entgroup.cn, in the first half of 2019, the total box office of Chinese films reached approximately RMB31.17 billion, representing a year-on-year decrease of 2.7%; the number of people watching movies reached approximately 808 million, representing a year-on-year decrease of 10.3%; the time when the domestic combined box office reached RMB30 billion is a week later than last year. While it is apparent that the film and television drama industry still faces enormous challenges, there were also opportunities. The robust development of the cultural industry highlights the importance of the film and television drama industry. At the end of 2018, the National Film Bureau of the PRC issued the "Opinions on Accelerating the Construction of Movie Theaters to Promote the Prosperity and Development of the Film Market" (《關於加快電影院建設促進電影市場繁榮發展的意見》) and the General Office of the State Council issued the "Regulations on Further Supporting the Development of Cultural Enterprises" (《進一步支持文化企業發展的規定》), both indicating the government's intention to keep supporting the healthy development of the film and television drama industry.

During the first half of 2019, the textile industry continued the grim situation of 2018 (especially that of the fourth quarter). China's total exports of textile and apparel for the first half of 2019 amounted to approximately US\$124.23 billion, representing a decrease of approximately 2.4% year-on-year. Among which, exports of textile products amounted to approximately US\$58.62 billion, representing an increase of approximately 0.7% year-on-year; exports of apparel products amounted to approximately US\$65.61 billion, representing a decrease of approximately 4.9% year-on-year. In particular, exports of pure cotton grey fabrics in June amounted to approximately 61.19 million meters, representing a decrease of approximately 60.8% year-on-year. In the first half of 2019, China's total exports of pure cotton grey fabrics were approximately 370 million meters, representing a decrease of approximately 62.4% year-on-year. It can be seen from these data that the intensification of US-China trade war has had a significant impact on the operation of the textile industry, especially in terms of exports. Production activities of China's textile industry as a whole was subdued. The growth of the industry had slowed down markedly, with profit margins, return on investment and return on assets continuing to decline, percentage of loss-incurring enterprises increasing and investors staying in wait-and-see mood.

BUSINESS REVIEW

During the Period Under Review, the Group's profit before tax was approximately RMB35.2 million, representing an increase of approximately RMB121.0 million as compared to the loss before tax of approximately RMB85.8 million for the corresponding period of last year, which was mainly due to the sharp increase in the Group's revenue and gross profit, and the decrease in loss from changes in fair value of convertible bonds comparing to the corresponding period of last year.

1. Media Business

Since the Group has entered into the film and television industry in 2015 and up to the date hereof, the Group's film, television and media business has been growing steadily. Due to the changes in market regulation and policies, "The Last Wish" (小小的願望, formerly known as "Great Wish" (偉大的願望)), a theatrical film, and "Once Upon A Time In The Northeast" (東北往事), a youth nostalgic film, both invested by Beijing Starrise Pictures Co., Ltd. (北京星宏影視文化有限公司) ("**Starrise Pictures**"), a wholly-owned subsidiary of the Group, were revoked from and delayed to release before their respective release dates. In the first half of 2019, the films and dramas of the Group released included "Wandering Earth" (流浪地球), the first phenomenal science fiction film in China, and "The Grandmaster of Kungfu" (霍元甲之精武天下), an internet swordsman action film, both invested by Beijing Starwise Culture Media Co., Ltd. ("**Beijing Starwise**"), a wholly-owned subsidiary of the Group, and "Mystic Kitchen 1" (如意廚房第一部) and "Triple Threat" (三重威脅), internet movies invested by Starrise Pictures. Among them, "Wandering Earth" (流浪地球) has made remarkable achievements in both reputation and box office since its release, recording box office of approximately RMB4.66 billion and ushering in a new era of Chinese science fiction movie. "The Family in That City" (那座城, 這家人), invested and produced by Beijing Huasheng Taitong Media Investment Co., Ltd. ("**Huasheng Media**"), a wholly-owned subsidiary of the Group, was nominated for Best TV Series (China) of the 25th Shanghai TV Festival Magnolia Awards in May 2019, and won the 15th "Five-One Project" Award for the Construction of Spiritual Civilization issued by the Publicity Department of the Communist Party of China in August 2019. Moreover, "Soulmate" (七月與安生) and "Lipstick Princess" (唯美貌不可辜負), internet movies invested and produced by Beijing Starwise, were exclusively released on iQIYI on 22 July 2019 and 30 July 2019, respectively.

Meanwhile, among the films and television series invested by Huasheng Media, animated film “Tempering of King Gelsall” (格薩爾王之磨煉) is in the stage of preparing script. A large-scale television series “Legend of Businessman in Hongjiang” (一代洪商) and situation comedy “The 101-200 episodes of The New Big Head Son and The Little Head Father” (新大頭兒子小頭爸爸101-200集) had finished shooting in early 2019 and are currently under post production stage. Among the films, internet dramas and internet films invested by Starrise Pictures, theatrical film “In Broad Daylight” (光天化日), internet movies “Mystic Kitchen 2” (如意廚房2), “Alien Monster: Survival in the Wild” (異星怪獸之荒野求生), “Bosom Friend” (高山流水) and theatrical film “Space Dogs: Adventure to the Moon” (太空狗之月球大冒險) are all submitted for screening. Horror film “Scream” (驚聲尖叫, formerly known as “Horror Blockbuster” (恐不大片)) and youth nostalgic film “Here Comes Dashan” (大山來了) were submitted for approval. Internet drama “Legend of Taotie” (饕餮記), internet movies “Monster Hunters” (鎮魂歌) and “Drift on! Zhi” (漂移吧! 小志) have all finished shooting and are currently under post production stage. Theatrical film “Twin Blades” (歷小龍與程序媛), internet films “Breaking Gods” (破神錄) and “Sword Maker” (煉劍) are undergoing the filming process. Internet film “Mystery Case in Ying Dynasty” (大應奇案) and film “Tianta Crisis” (天塔危機) are preparing filming. Internet drama “The Counterattack of An Ordinary Man” (匹夫的逆襲) and film “Elderly Hero” (遲暮英雄) are in the stage of script development and preparation. Among the dramas, films, internet dramas and internet films invested by Beijing Starwise, internet film “Snow Monster” (大雪怪, formerly known as “Trance” (迷幻境地)) will be released on 11 September 2019. Animated film “GO!REX” (你好, 霸王龍) has already been approved for broadcast and will be screened on National Day holiday. Internet film “Deadly Sniper” (致命狙殺, formerly known as “Spy” (叛諜)), television drama “Healer of Children” (了不起的兒科醫生), “The Lion’s Reflection of Laying Cat” (賴貓的獅子倒影), internet films “Ninja Mission” (忍術之八岐大蛇), “Rat Disaster” (大鼠災) and “The Shark” (陸行鯊) have all finished shooting and are currently under post production stage. Particularly, the “Healer of Children” was selected by National Radio and Television Administration as one of the tribute plays to celebrate the 70th anniversary of the founding of the People’s Republic of China. Internet dramas “Platina Data” (白金數據), “Bulletproof Teacher” (穿越火線: 防彈教師) and “Back to the dynasty” (午門囡事), all being valuable IP projects, are also in the stage of script development and early investment.

In addition, on 8 July 2019, Starrise Pictures entered into a cooperation agreement with Chongqing Normal University Foreign Trade and Business College (“**Chongqing Normal University**”), pursuant to which Starrise Pictures and Chongqing Normal University will jointly establish a film and television media school under Chongqing Normal University (“**Film and Television Media School**”) to cultivate vocational talents for the film and television industry by leveraging on the parties’ resources and brand influence. The Board believes that the establishment of the Film and Television Media School will provide the Group with consistent and stable income, as well as a source of professional talents from various disciplines, which will further enhance the competitiveness of the Company.

2. Textile Business

Under the grim situation of the textile industry, the Company continued to strengthen the innovation strategies and stringent cost saving measures to improve the performance of textile business to cushion the impact of textile market fluctuations on the Company's business performance. The Company continued to deepen the Amoeba operating model for striving to reduce operating costs. However, facing with the severe and complicated circumstance, although the Company has gone into full production and maintained the balance of production and sales, it still recorded operating losses for the first half of the year. The Group's textile business is under downward pressure due to the unsatisfied economic environment.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis of the revenue, gross profit and gross profit margin of the Group's textile business and media business for the six months ended 30 June 2019 and 2018, respectively:

	For the six months ended 30 June					
	2019			2018		
	Revenue	Gross profit	Gross profit	Revenue	Gross profit	Gross profit
	<i>RMB'000</i>	<i>RMB'000</i>	margin	<i>RMB'000</i>	<i>RMB'000</i>	margin
			%			%
Textile business	240,912	22,639	9.4%	301,917	37,746	12.5%
Media business	220,277	104,950	47.6%	111,980	24,955	22.3%
Total	461,189	127,589	27.7%	413,897	62,701	15.1%

For the six months ended 30 June 2019, the gross profit margin of the Group increased by approximately 12.6 percentage points, from approximately 15.1% of the corresponding period of last year to approximately 27.7%.

The revenue of the media business of the Group recorded great increase in the Period Under Review as compared to the corresponding period of last year. Although the revenue of the textile business decreased during the Period Under Review, the increase in the media business's gross profit offsets the decrease in the textile business. As a result, the gross profit margin of the Group increased by 12.6 percentage points as compared to the same period in 2018. The gross profit margin of the media business was approximately 47.6%, representing an increase of approximately 25.3 percentage points as compared to the corresponding period in 2018. The gross profit margin of the textile business was approximately 9.4% during the Period Under Review, which represented a decrease of approximately 3.1 percentage points as compared to the same period in 2018.

Distribution costs

For the six months ended 30 June 2019, distribution costs of the Group was approximately RMB8.8 million, decreased by approximately RMB5.8 million from approximately RMB14.6 million for the corresponding period of last year. Such decrease was generally in line with the sharp decline in distribution costs of film and television projects in the media business.

Administrative expenses

For the six months ended 30 June 2019, the administrative expenses of the Group increased slightly to approximately RMB39.7 million, representing an increase of approximately 2.3% as compared to that of approximately RMB38.8 million for the corresponding period of last year.

Other net losses

For the six months ended 30 June 2019, the total amount of other net losses of the Group was approximately RMB24.0 million, (other net losses was approximately RMB52.3 million for the corresponding period of last year). Such decrease was mainly due to the losses on change in fair value recognized in profit or loss of RMB26.5 million in relation to the derivatives embedded in convertible bonds during the Period Under Review which represented a decrease of approximately RMB31.2 million as compared to approximately RMB57.7 million recorded during the corresponding period of last year.

Net finance costs

During the Period Under Review, the Group recorded a net finance costs of approximately RMB19.8 million. For the six months ended 30 June 2019, the finance costs of the Group were approximately RMB36.7 million, representing a decrease of approximately RMB22.0 million as compared to approximately RMB58.7 million recorded during the corresponding period in 2018. Such decrease was mainly due to the decrease in interest expense of convertible bonds. The finance income of the Group was approximately RMB16.9 million, representing an increase of approximately RMB1.1 million as compared to approximately RMB15.8 million recorded during the corresponding period of last year, which was mainly due to the increase in the interest income from bank deposit in 2019.

Taxation

For the six months ended 30 June 2019, taxation of the Group remained stable at approximately RMB6.1 million, representing an increase of approximately RMB0.1 million, as compared to approximately RMB6.0 million of the corresponding period of last year.

Profit/(loss) attributable to the equity shareholders of the Company

For the six months ended 30 June 2019, the profit attributable to the equity shareholders of the Company was approximately RMB29.2 million (the loss attributable to the equity shareholders of the Company was approximately RMB92.7 million in the corresponding period in 2018). This was mainly due to the large increase in the revenue and gross profit of the Group's media business during the Period Under Review.

Liquidity and financial resources

As at 30 June 2019, cash and cash equivalents of the Group were approximately RMB244.0 million, representing a decrease of approximately 14.3% from approximately RMB284.7 million as at 31 December 2018. This was mainly due to the increase in the cash used in operating activities and the decrease in the proceeds from financing activities.

For the six months ended 30 June 2019, the Group's net cash used in operating activities was approximately RMB93.1 million, net cash generated from investing activities was approximately RMB98.0 million and net cash used in financing activities was approximately RMB45.9 million. Cash and cash equivalents of the Group decreased by approximately RMB41.0 million over the Period Under Review. The Board believes that the Group will be able to maintain a sound and stable financial position, and maintain sufficient liquidity and financial resources for its business need.

With respect to the payment terms of purchase or processing orders made by customers with long established business relationship, good settlement record and sound reputation, the Group may waive the deposit requirements or grant a credit period typically ranging from 30 to 180 days. The length of credit period depends on various factors such as financial strength, scale of the business and settlement record of those customers. For the six months ended 30 June 2019, the average trade receivables (including bills receivable) turnover days of the Group was approximately 140 days, increased from 58 days recorded during the corresponding period in the previous year. The increase was mainly due to the increase in the average balance of accounts receivables of the media business.

For the six months ended 30 June 2019, inventory turnover days of the Group increased to 117 days from 93 days for the corresponding period in 2018. The increase was mainly because of the increase in the balance of inventories and the decrease in selling cost.

For the six months ended 30 June 2019, drama series and films turnover days of the Group decreased to 327 days from 420 days for the corresponding period in 2018. The decrease was mainly because of the increase in selling cost of drama series and films during the Period under Review.

As at 30 June 2019, the Group's bank borrowings and lease liabilities were approximately RMB215.2 million (31 December 2018: approximately RMB204.7 million), which bore fixed interest at rates ranging from 4.4% to 5.7% per annum (31 December 2018: 4.4%-5.7%). As at 30 June 2019, the Group did not have any loans with floating interest (31 December 2018: Nil). The Group's liability component of the convertible bonds is approximately RMB154.7 million, with annual effective interest rate of 12.3% (31 December 2018: approximately RMB253.9 million, with annual effective interest rate of 22.0%).

Capital structure

The Group continues to maintain an appropriate mix of equity and debt to ensure an optimal capital structure to reduce capital cost. As at 30 June 2019, the debts of the Group were mainly represented by bank loans, bonds, convertible bonds and lease liabilities with a total amount of approximately RMB695.8 million (31 December 2018: approximately RMB845.5 million). As at 30 June 2019, cash and cash equivalents were approximately RMB244.0 million (31 December 2018: approximately RMB284.7 million). As at 30 June 2019, the Group's gearing ratio was approximately 38.8% (31 December 2018: gearing ratio was approximately 58.8%). The gearing ratio was calculated by dividing total debt (i.e. interest-bearing bank loans, convertible bonds, obligations under finance lease and bonds, after deducting cash and cash equivalents) by total equity.

As at 30 June 2019, the Group's debts due within a year were approximately RMB670.0 million (31 December 2018: approximately RMB627.2 million).

Capital commitments

Save as disclosed in note 16 to the unaudited interim financial results, the Group did not have any other significant capital commitments as at 30 June 2019 (31 December 2018: Nil).

Employee and remuneration policy

As at 30 June 2019, the Group had a total of approximately 1,755 employees (31 December 2018: 1,704; 30 June 2018: 1,721). Such increase in the number of employees was mainly due to the increase in the number of employees in textile business.

For the six months ended 30 June 2019, staff costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB55.1 million (for the corresponding period of 2018: approximately RMB50.9 million). The increase in staff costs was mainly due to the increase in the staff costs in textile business.

The Group continues to provide training to its staff to improve their operational skills. Meanwhile, the Group enhanced the work efficiency and the average income of the staff through position consolidation, process reorganization and improvement of working and living environment of the staff. The remuneration of the employees of the Group was determined with reference to their working performance, experience and the industry practices. The management of the Group will also periodically review the Group's remuneration policy. In addition, the Group would provide bonuses and incentives based on employees' performances to encourage and motivate them to strive for better performance. For the rest of 2019, the Group will continue to provide training to staff according to their respective skill requirements, such as training sessions on safety and technical skill.

Exposure to foreign exchange risk

The Group has adopted a prudent policy in managing its exchange rate risk. The imports and exports of the Group were settled in US dollars. The convertible bonds, bonds and foreign currency bank deposits were calculated in HK dollars. The Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in the currency exchange rates during the Period Under Review. The Board believes that the Group will have sufficient foreign currency reserves to meet its requirements.

Contingent liabilities

Save as disclosed in the notes to the financial statements, the Group did not have any contingent liabilities as at 30 June 2019.

Charges on assets

Except for the pledged bank deposits disclosed in the consolidated statement of financial position, the Group pledged its machinery and equipment with net book value of approximately RMB10.4 million (31 December 2018: approximately RMB10.6 million) as securities for bank borrowings and lease liabilities as at 30 June 2019.

Significant investments

As at 30 June 2019, the Group did not hold any significant investments in equity interest in any other company.

Future plans for material investments and capital assets

As at the date of this announcement, the Group did not have any plans for future material investments and capital assets.

Material acquisitions and disposals of subsidiaries and associated companies

For the six months ended 30 June 2019, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

OUTLOOK

For all these years, the Group always stick to the market segment of high-end jacquard fabrics in spite the ever-changing textile markets by focusing on two aspects, namely, innovation and cost control, in attempt to increase revenue, reduce expenditures, constantly strength its own core competitiveness and enhance operating efficiency, thus allowing the Company maintain stable operation against the prolonged stagnant and challenging situation. However, the US-China trade war has not only caused concerns over the present situation of the textile industry in China, but also brought long-term worries about the redeployment of the global textile industry. What's more, as the operation-related costs of domestic enterprises increase, the competitiveness and influence of the textile industry in China would be severely damaged. We are becoming more aware of the fact that, the restructuring and upgrading of the Chinese economy, the social development as well as the competition among global markets will all bring fundamental changes to the living situation and environment of textile enterprises. Based on this recognition, the Company proposes to divest our textile business in order to shift the Group's focus to film and television business. The Company firmly believes that the disposal of textile business is in line with the long term benefits of the Group and its Shareholders as a whole.

The year of 2019 is the 70th anniversary of the founding of the People's Republic of China, as well as the crucial year for achieving the Two Centenary Goals. Despite the external uncertainties for economic growth, the television and film industry as an important pillar of the cultural industries and also the state-supported industry still shows a promising market outlook. The realistic films and dramas based on the theme of the 70th anniversary of the founding of the People's Republic of China will be the mainstream on screen in the second half of 2019. In respect of the film industry, China Film Association issued "The Research Report on Chinese Film Industry 2019" at the 22th Shanghai International Film Festival in June 2019. The report states that, first of all, the sky-high remuneration of stars got restrained effectively with combining efforts; second, Chinese film market has showed signs of leading the industry, specifically, China is currently the fastest-growing country in terms of global box office with rapid-growing number of movie screens and low price of movie tickets, and Chinese people are also shaping their habits of going to the cinema; lastly, Chinese audiences are getting more rational in picking movies, which makes the quality and reputation of a movie become the crucial factor to success. In addition, video websites take an increasingly important role and the number of paid members of iQIYI.COM broke 100 million in June this year, marking the coming of "100 million" membership era of paid video market in China. The high-quality content on video platforms drove the growth of payment, which administrated the market law of "quality counts". Besides, the demand of audiences for dramas keeps increasing, so high-quality dramas and movies with mainstream theme and commercial characters will be the key for the industry to get through downturn period.

Going forward, the Group will continue to promote the development of its film and television media business. In the second half year of 2019, the Group will first take full advantages of the platform of its subsidiary, Huasheng Media, in terms of creating quality orthodox dramas with positive themes, to focus on high quality and innovative development of the contents and further spread positive energy to the community. Secondly, the Group will leverage on the advantages of its other two business platforms, namely that of Starrise Pictures and Beijing Starwise, respectively, in the areas of internet dramas and movies, IP resources reserves and the long cooperation relationship with video platforms to capture the opportunities due to the fast development of internet video platforms and promote the production of internet orthodox dramas subject to the national policies. Lastly, the Group will leverage on the advantages of the Film and Media Television School which is jointly established via the cooperation with the Chongqing Normal University, in the terms of professional talents training and provision of stable income, to gradually enhance the recognition and competitiveness of the Group and lay a solid foundation for the Group on a good development in the future. In addition, the Group will pay close attention to the developments in the government policies relating to the film and television media industry, make full use of its existing film and television resources to further diversify the Group's film and television media business, as well as actively invest in the shooting of high-quality television and internet dramas which are in line with the China's "Core Socialist Values", to achieve a better development of the Group.

Currently, the Group's preparatory plans and filming works are undergoing smoothly, and the broadcasting and production schedule of its films and television series for 2019 are as follows:

No.	Name	Genre	(Planned) Shooting Commencement Date	Remarks
1	Wandering Earth (流浪地球)	Science fiction film	In May 2017	Broadcasted in February 2019
2	The Grandmaster of Kungfu (霍元甲之精武天下)	Internet movie	In July 2018	Broadcasted in January 2019
3	Mystic Kitchen 1 (如意廚房1)	Internet movie	In June 2018	Broadcasted in February 2019
4	Triple Threat (三重威脅)	Internet movie	–	Broadcasted in March 2019
5	Soulmate (七月與安生)	Internet dramas	In May 2018	Broadcasted in July 2019
6	Beauty is the Most important (唯美貌不可辜負)	Internet dramas	In August 2018	Broadcasted in July 2019
7	Once Upon A Time In The Northeast (東北往事)	Youth nostalgic film	In March 2017	Delayed for broadcast
8	The Last Wish (小小的願望, formerly known as "Great Wish" (偉大的願望))	Theatrical film	In November 2018	Delayed for broadcast
9	Snow Monster (大雪怪, formerly known as "Trance" (迷幻境地))	Internet movie	In November 2018	Will be broadcasted in September 2019
10	Mystic Kitchen 2 (如意廚房2)	Internet movie	In June 2018	Submitted for screening
11	In Broad Daylight (光天化日)	Theatrical film	In June 2018	Submitted for screening
12	Bosom Friend (高山流水)	Internet movie	In July 2018	Submitted for screening
13	Alien Monster: Survival in the Wild (異星怪獸之荒野求生)	Internet movie	In August 2018	Submitted for screening

No.	Title	Theme	(Planned) Shooting Commencement Date	Current Status
14	GO!REX (你好霸王龍)	Animated movie	In May 2017	Submitted for screening
15	Space Dogs: Adventure to the Moon (太空狗之月球大冒險)	Theatrical film	–	Submitted for screening
16	Scream (formerly known as “Horror Blockbuster” (恐不大片))	Horror film	In November 2017	Submitted for approval
17	Here Comes Dashan (大山來了)	Youth nostalgic film	In December 2017	Submitted for approval
18	The Lion’s Reflection of Laying Cat (賴貓的獅子倒影)	Internet dramas	In September 2018	Under post-production
19	Legend of Businessman in Hongjiang (一代洪商)	Historical story drama	In October 2018	Under post-production
20	The Tale of the Mythical Ferocious Animal (饕餮記)	Internet dramas	In October 2018	Under post-production
21	Monster Hunters (鎮魂歌)	Internet movie	In December 2018	Under post-production
22	Ninja Mission (忍術之八岐大蛇)	Internet movie	In January 2019	Under post-production
23	Healer of Children (了不起的兒科醫生)	Workplace drama	In January 2019	Under post-production
24	The 101-200 episodes of The New Big Head Son and The Little Head Father (新大頭兒子小頭爸爸 101-200集)	Situation comedy	In February 2019	Under post-production
25	The Shark (陸行鯊)	Internet movie	In April 2019	Under post-production
26	Deadly Sniper (致命狙殺, formerly known as “Spy” (叛諜))	Internet movie	In May 2019	Under post-production
27	Rat Disasters (大鼠災)	Internet movie	In May 2019	Under post-production
28	Drift on! Zhi (漂移吧！小志)	Internet movie	In August 2019	Under post-production
29	Twin Blades (曆小龍與程序媛)	Theatrical film	In May 2019	Under filming
30	Breaking Gods (破神錄)	Internet movie	In June 2019	Under filming
31	Sword Maker (煉劍)	Internet movie	In August 2019	Under filming
32	Legend of Tang Xiaohu (唐伯虎後傳)	Internet movie	The first half of 2019	Preparing script
33	Blood Pledge for Thousands of Years (血盟千年)	Historical story drama	The first half of 2020	Preparing script
34	The 201-300 episodes of The New Big Head Son and The Little Head Father (新大頭兒子小頭爸爸 201-300集)	Situation comedy	The first half of 2020	Preparing script

No.	Title	Theme	(Planned) Shooting Commencement Date	Current Status
35	Platinum Data (白金數據)	Internet dramas	The first half of 2020	Preparing script
36	Bulletproof Teacher (穿越火線)	Internet dramas	The first half of 2020	Preparing script
37	Back To The Dynasty (午門囡事)	Internet dramas	The first half of 2020	Preparing script
38	Tempering of King Gelsall (格薩爾王之磨煉)	Animation film	–	Preparing script
39	The Past Days Spent Together (一起混過的日子)	Internet dramas	2020	Preparing script
40	The Counterattack of An Ordinary Man (匹夫的逆襲)	Internet dramas	2020	Preparing script
41	Yangtze River Bridge (長江大橋)	Realistic drama	2020	Preparing script
42	Mystery Case in Ying Dynasty (大應奇案)	Internet movie	2020	Preparing script
43	Outlaws of the Marsh: Wu Song (武松決戰十字坡)	Internet movie	2020	Preparing script
44	Yang Jian: God of War (少年楊戩)	Internet movie	2020	Preparing script
45	Hero Returns (遲暮英雄)	Theatrical film	2020	Preparing script

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Adapting and adhering to the recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

The Company had adopted the code provisions (the “**Code Provisions**”) set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and throughout the Period Under Review the Company had complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted 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 of all Directors, all the Directors confirmed that they have complied with the required standards of dealing as set out in the Model Code throughout the Period Under Review.

AUDIT COMMITTEE

The Audit Committee established by the Board has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters (including the review of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

On 13 August 2019 (after trading hours), the Company entered into a sale and purchase agreement with Excel Orient Limited, pursuant to which the Company has conditionally agreed to sell, and Excel Orient Limited has conditionally agreed to acquire, the entire issued share capital of Power Fit Limited at the total consideration of RMB335.32 million. Details of which may refer to the Company's announcement on the same date. As at the date hereof, the completion of such transaction has not yet taken place.

DISCLOSURE OF INFORMATION

The interim report of the Company will be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.starrise.cn) and shall be despatched to the shareholders before the end of September 2019.

By order of the Board
Starrise Media Holdings Limited
LIU Dong
Chairman

Shandong, the PRC, 29 August 2019

As at the date of this announcement, the Board comprises eight Directors, namely Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han and Mr. TAN Bin as executive Directors; Mr. WANG Liangliang, Mr. LAM Kai Yeung and Mr. LIU Chen Hong as independent non-executive Directors.

This announcement is prepared in both Chinese and English. In the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.