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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	
	2020	2019
	HK\$'000	HK\$'000
Total revenue	42,356	48,076
Gross profit	17,456	18,052
Loss before finance cost and taxation	(14,997)	(7,921)
Loss for the period	<u>(11,601)</u>	<u>(8,653)</u>

- During the period under review, the theatres in the People's Republic of China (the "PRC") and many other countries/regions worldwide were compelled to suspend their business altogether or to operate only on a limited scale due to the outbreak of the Coronavirus Disease 2019 ("COVID-19"). The Group had not arranged any new theatrical release in the period under review. Due to the increase in project interest income, the total revenue from the Entertainment and Media Operations of the Group was increased by 7 times to approximately HK\$3,665,000 (2019: approximately HK\$451,000). Together with a drop by 19% in revenue for the offline healthcare and wellness services due to the outbreak of COVID-19, the Group's total revenue amounted to approximately HK\$42,356,000 (2019: HK\$48,076,000), representing a period-to-period decrease by about 12%. Furthermore, with the decrease in the Group's share of the results of an associate, HB Entertainment Co., Ltd. ("HB Entertainment"), the consolidated net loss of the Group during the period under review increased by 34% over the same period last year to HK\$11,601,000 (2019: HK\$8,653,000).
- As at the date of this interim results announcement, theatres in certain countries/regions in Europe and Asia have already re-opened, and cinemas in low-risk areas in the PRC have resumed services orderly since 20 July. The Group has invested a minority stake in "Eight Hundred", an epic war movie produced by Huayi Brothers, which was theatrically released in the PRC since 21 August 2020. "Eight Hundred" has earned positive critics in general, and its box office has already exceeded RMB1.2 billion as of the date of this interim results announcement.
- The domestic film market in Korea has also made a strong rebound. "Space Sweepers", the first science fiction feature film project in Korea financed and co-produced by the Group (which also acquired the film's distribution rights in the PRC), will make its theatrical release in Korea on 23 September this year. It is directed by Jo Sung-hee (the director of "A Werewolf Boy" and "The Phantom Detective") and is starring superstars like Song Joong-ki (the leading actor of "Descendants of the Sun" and "The Battleship Island"), Kim Tae-ri (the main actress of "The Handmaiden" and "1987: When the Day Comes") and outstanding actors such as Yu Hae-jin and Jin Seon-kyu (who featured in "Extreme Job" which nabbed the top spot at the Korean box office in 2019). Together with a production budget of KRW24 billion (equivalent to approximately HK\$160 million), the film is expected to become the talk of the town in 2020 and contribute a significant amount of return to the Group.

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 2020, together with the comparative figures for the corresponding period in 2019. 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 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue and film investment income	5	38,771	47,625
Interest revenue calculated using the effective interest method	5	<u>3,585</u>	<u>451</u>
	5	42,356	48,076
Cost of sales		<u>(24,900)</u>	<u>(30,024)</u>
Gross profit		17,456	18,052
Other income and other (losses)/gains, net	5	(557)	1,992
Administrative expenses		<u>(31,500)</u>	<u>(33,186)</u>
		(14,601)	(13,142)
Finance income/(costs), net	6	3,416	(112)
Share of result of an associate		<u>(396)</u>	<u>5,221</u>
Loss before taxation	7	(11,581)	(8,033)
Taxation	8	<u>(20)</u>	<u>(620)</u>
Loss for the period		<u><u>(11,601)</u></u>	<u><u>(8,653)</u></u>
Loss attributable to:			
Equity holders of the Company		<u><u>(11,601)</u></u>	<u><u>(8,653)</u></u>
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted loss per share	9	<u><u>(0.09)</u></u>	<u><u>(0.06)</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	<u>(11,601)</u>	<u>(8,653)</u>
Other comprehensive loss:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>(10,303)</u>	<u>(2,812)</u>
Other comprehensive loss for the period, net of tax	<u>(10,303)</u>	<u>(2,812)</u>
Total comprehensive loss for the period	<u><u>(21,904)</u></u>	<u><u>(11,465)</u></u>
Total comprehensive loss attributable to:		
Equity holders of the Company	<u><u>(21,904)</u></u>	<u><u>(11,465)</u></u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,829	3,736
Right-of-use assets	11	131,711	20,536
Film rights and film production in progress	13	291,371	252,750
Interest in an associate	15	275,410	278,250
Financial asset at fair value through profit or loss	16	3,717	4,112
Prepayments, deposits and other receivables	17	<u>737</u>	<u>739</u>
		<u>704,775</u>	<u>560,123</u>
Current assets			
Trade receivables	17	–	–
Programmes and film production in progress	14	75,533	75,874
Prepayments, deposits and other receivables	17	22,451	331,899
Pledged bank deposits	18	50,136	49,664
Cash and cash equivalents		<u>147,381</u>	<u>198,248</u>
		<u>295,501</u>	<u>655,685</u>
Total assets		<u><u>1,000,276</u></u>	<u><u>1,215,808</u></u>

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	20	269,962	269,962
Reserves		<u>541,344</u>	<u>563,248</u>
Total equity		<u>811,306</u>	<u>833,210</u>
Liabilities			
Non-current liabilities			
Lease liabilities	11	675	1,916
Deferred income tax liabilities		<u>1,021</u>	<u>1,039</u>
		<u>1,696</u>	<u>2,955</u>
Current liabilities			
Lease liabilities	11	128,929	2,421
Other payables and accrued liabilities		14,554	11,540
Bank and other borrowings	19	<u>43,791</u>	<u>365,682</u>
		<u>187,274</u>	<u>379,643</u>
Total liabilities		<u>188,970</u>	<u>382,598</u>
Total equity and liabilities		<u><u>1,000,276</u></u>	<u><u>1,215,808</u></u>

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(49,597)	(66,981)
Cash flows from investing activities		
Bank interest received	1,091	2,564
Purchase of property, plant and equipment	(298)	(410)
Net proceeds from disposal of a subsidiary, net of cash and cash equivalent included in the subsidiary disposed of	—	56,951
Net cash generated from investing activities	793	59,105
Cash flows from financing activities		
Proceeds from other borrowings	—	323,803
Increase in pledged deposits	—	(331,261)
Increase in pledged bank deposits	(472)	—
Principal elements of lease payments	(1,200)	—
Net cash used in financing activities	(1,672)	(7,458)
Net decrease in cash and cash equivalents	(50,476)	(15,334)
Cash and cash equivalents at 1 January	198,248	362,490
Currency translation differences	(391)	(609)
Cash and cash equivalents at 30 June	147,381	346,547

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	(Unaudited)						
	Attributable to equity holders of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital redemption reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2020	269,962	1,213,484	860,640	1,206	(14,135)	(1,497,947)	833,210
Loss for the period	-	-	-	-	-	(11,601)	(11,601)
Other comprehensive loss	-	-	-	-	(10,303)	-	(10,303)
Total comprehensive loss	-	-	-	-	(10,303)	(11,601)	(21,904)
Balance at 30 June 2020	<u>269,962</u>	<u>1,213,484</u>	<u>860,640</u>	<u>1,206</u>	<u>(24,438)</u>	<u>(1,509,548)</u>	<u>811,306</u>

	(Unaudited)						
	Attributable to equity holders of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital redemption reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2019	269,962	1,213,484	860,640	1,206	(7,323)	(1,469,177)	868,792
Loss for the period	-	-	-	-	-	(8,653)	(8,653)
Other comprehensive loss	-	-	-	-	(2,812)	-	(2,812)
Total comprehensive loss	-	-	-	-	(2,812)	(8,653)	(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>

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 26 August 2020.

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 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, 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.

(a) Amended standards and conceptual framework to existing standards effective in 2020 adopted by the Group

The Group has adopted the following amended standards and conceptual framework to existing standards (“new HKFRSs”) that have been issued and are effective for the Group’s accounting period beginning on 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 7, HKFRS9 and HKAS 39	Hedge accounting

The adoption of the above new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

(b) New and amended standards to existing standards that are not effective in 2020 and have not been early adopted by the Group

The following new and amended standards to existing standards have been issued, but are not effective for the financial period beginning 1 January 2020 and have not been early adopted by the Group:

		Effective for financial years beginning on or after
Amendments to HKFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Amendment to HKFRS 3	Update reference to conceptual framework	1 January 2022
Amendment to HKAS 1	Classifications of liabilities as current and non-current	1 January 2022
Amendment to HKAS 16	Proceeds before intended use	1 January 2022
Amendment to HKAS 37	Onerous contracts — cost of fulfilling a contract	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of assessing the impact of the new and amended standards on its results of operations and financial position. The Group expects to adopt the relevant new and amended standards, when they become effective.

4. 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: (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 income/(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 (2019: Nil).

(a) Business segment

The segment results for the six months ended 30 June 2020 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	80	38,691	38,771
Interest revenue calculated using the effective interest method	<u>3,585</u>	<u>–</u>	<u>3,585</u>
	<u>3,665</u>	<u>38,691</u>	<u>42,356</u>
Share of result of an associate	<u>(396)</u>	<u>–</u>	<u>(396)</u>
Segment results	<u>1,736</u>	<u>(6,290)</u>	(4,554)
Exchange losses, net			(1,342)
Unallocated expenses, net			<u>(9,101)</u>
			(14,997)
Finance income, net			<u>3,416</u>
Loss before taxation			(11,581)
Taxation			<u>(20)</u>
Loss for the period attributable to equity holders of the Company			<u>(11,601)</u>

An analysis of the Group's assets and liabilities as at 30 June 2020 by segment and other information for the six months ended 30 June 2020 are as follows:

	Entertainment and media (Unaudited) HK\$'000	Offline healthcare and wellness service (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 30 June 2020			
Segment assets	697,335	129,907	827,242
Unallocated assets			173,034
Total assets			1,000,276
Segment liabilities	44,848	134,360	179,208
Unallocated liabilities			9,762
Total liabilities			188,970
For the six months ended 30 June 2020			
Other Information:			
Addition of right-of-use assets	–	126,087	126,087
Purchases of property, plant and equipment	–	298	298
Addition of film rights and film production in progress	42,813	–	42,813
Depreciation of right-of-use assets			
— Allocated	–	11,583	11,583
— Unallocated			1,224
Depreciation of property, plant and equipment			
— Allocated	–	1,978	1,978
— Unallocated			171
Impairment of film rights and film production in progress	1,138	–	1,138

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

	Entertainment and media (Unaudited) <i>HK\$'000</i>	Offline healthcare and wellness service (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
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><u>451</u></u>	<u><u>47,625</u></u>	<u><u>48,076</u></u>
Share of result of an associate	<u><u>5,221</u></u>	<u><u>–</u></u>	<u><u>5,221</u></u>
Segment results	<u><u>5,015</u></u>	<u><u>(3,736)</u></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 attributable to equity holders of the Company			<u><u>(8,653)</u></u>

An analysis of the Group's assets and liabilities as at 31 December 2019 by segment and other information for the six months ended 30 June 2019 are as follows:

	Entertainment and media <i>HK\$'000</i>	Offline healthcare and wellness service <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2019 (Audited)			
Segment assets	660,650	19,259	679,909
Unallocated assets			<u>535,899</u>
Total assets			<u><u>1,215,808</u></u>
Segment liabilities	45,708	5,188	50,896
Unallocated liabilities			<u>331,702</u>
Total liabilities			<u><u>382,598</u></u>
For the six months ended 30 June 2019 (Unaudited)			
Other Information:			
Purchases of property, plant and equipment			
— Allocated	—	395	395
— Unallocated			15
Addition of film rights and film production in progress	19,210	—	19,210
Depreciation of right-of-use assets	—	10,800	10,800
Depreciation of property, plant and equipment			
— Allocated	—	655	655
— Unallocated			<u>513</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 2020 HK\$'000	30 June 2019 HK\$'000	30 June 2020 HK\$'000	31 December 2019 HK\$'000
The People's Republic of China (the "PRC")	40,255	47,625	157,253	48,233
Hong Kong	—	—	3,122	4,353
Other countries	<u>2,101</u>	<u>451</u>	<u>264,536</u>	<u>224,436</u>
	<u>42,356</u>	<u>48,076</u>	<u>424,911</u>	<u>277,022</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. The portion of film rights and films production in progress subject to global circulation is included in other countries.

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

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue		
Entertainment and media		
— Interest revenue calculated using the effective interest method	3,585	451
— Film and TV programmes exhibition	80	—
Offline healthcare and wellness services		
— Club activities income	21,003	23,087
— Membership fees	15,032	17,529
— Food and beverage	<u>2,656</u>	<u>7,009</u>
	<u>42,356</u>	<u>48,076</u>

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and other (losses)/gains, net		
Interest income	1,091	2,564
Exchange losses, net	(1,342)	(182)
Fair value change in financial asset at fair value through profit or loss	(395)	(657)
Loss on disposal of property, plant and equipment	(2)	–
Miscellaneous	91	267
	<u>(557)</u>	<u>1,992</u>

6. FINANCE INCOME/(COSTS), NET

	Six months ended 30 June	
	2020	2019
	(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	(2,774)	(517)
Interest on bank borrowings	(1,201)	–
Interest on lease liabilities (<i>Note 11</i>)	(1,677)	–
	<u>(5,652)</u>	<u>(6,722)</u>
Finance income		
Imputed finance income on discounting other borrowings	–	6,086
Imputed finance income on unwinding of discounted pledged deposit paid	2,746	524
Exchange gain related to other borrowings	6,322	–
	<u>9,068</u>	<u>6,610</u>
Finance income/(costs), net	<u>3,416</u>	<u>(112)</u>

7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment (<i>Note 12</i>)	2,149	1,168
Depreciation of right-of-use assets (<i>Note 11</i>)	12,807	10,800
Impairment of film rights and film production in progress (<i>Note 13</i>)	1,138	–
Food and beverage costs in relation to “Bayhood No. 9 Club” operation	1,889	3,276
Labour costs in relation to “Bayhood No. 9 Club” operation	11,210	15,316
Employee benefit expenses:		
Directors’ fees	360	300
Wages and salaries	7,719	5,843
Contributions to defined contribution pension schemes	585	926
	8,664	7,069

8. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the period (2019: 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.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax		
— Hong Kong profits tax	–	–
— PRC corporate income tax	–	–
Deferred income tax	20	620
Income tax expense	20	620

The weighted average applicable tax rate for the six months ended 30 June 2020 was 21.2% (2019: 20.7%).

9. 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	
	2020	2019
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue (thousands)	13,498,107	13,498,107
Loss attributable to equity holders of the Company (HK\$'000)	<u>(11,601)</u>	<u>(8,653)</u>
Basic loss per share attributable to equity holders of the Company (HK cents per share)	<u>(0.09)</u>	<u>(0.06)</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 2020 (2019: same).

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2020 (2019: Nil).

11. LEASES

(i) Amounts recognized in the condensed consolidated interim balance sheet

The condensed consolidated interim balance sheet shows the following amounts relating to leases:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Right-of-use assets		
Office	3,113	4,336
Operating assets of "Bayhood No. 9 Club"	<u>128,598</u>	<u>16,200</u>
	<u>131,711</u>	<u>20,536</u>
Lease liabilities		
Current	128,929	2,421
Non-current	<u>675</u>	<u>1,916</u>
	<u>129,604</u>	<u>4,337</u>

Addition to the right-of-use assets during the six months ended 30 June 2020 was HK\$126,087,000 (2019: Nil).

(ii) Amounts recognized in the condensed consolidated interim income statement

The condensed consolidated interim income statement shows the following amounts relating to leases:

		30 June 2020 (Unaudited) HK\$'000	30 June 2019 (Unaudited) HK\$'000
	<i>Notes</i>		
Depreciation charge of right-of-use assets			
Office		1,224	–
Operating assets of “Bayhood No. 9 Club”		11,583	10,800
	7	12,807	10,800
Interest expense (included in finance costs)	6	1,677	–
Expenses relating to short-term leases (included in administrative expenses)		46	1,140

The total cash outflow for leases for the period ended 30 June 2020 was HK\$1,308,000 (2019: HK\$1,140,000).

(iii) The Group’s leasing activities and how these are accounted for

The Group leases various offices and certain operating assets of “Bayhood No. 9 Club”. Rental contracts are generally made for fixed periods of 2 to 5 years, but may have extension and termination options as described in Note 11(iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(iv) Extension and termination options

Extension and termination options are included in the lease held by the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group’s operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

12. PROPERTY, PLANT AND EQUIPMENT

	Building (Unaudited) HK\$'000	Machinery and equipment (Unaudited) HK\$'000	Furniture, computer and equipment (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2020						
Opening net book amount	214	960	963	–	1,599	3,736
Additions	–	277	18	–	3	298
Disposal	–	–	(2)	–	–	(2)
Depreciation	(110)	(638)	(544)	–	(857)	(2,149)
Exchange difference	(2)	(15)	(14)	–	(23)	(54)
Closing net book amount	<u>102</u>	<u>584</u>	<u>421</u>	<u>–</u>	<u>722</u>	<u>1,829</u>
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>

Depreciation expenses of approximately HK\$2,149,000 (2019: HK\$1,168,000) have been charged in administrative expenses.

13. FILM RIGHTS AND FILM PRODUCTION IN PROGRESS

	Completed film rights (Note (a)) (Unaudited) HK\$'000	Film production in progress (Note (a)) (Unaudited) HK\$'000	Film rights investments (Note (b)) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2020				
Opening net book amount	1,149	234,856	16,745	252,750
Addition	–	42,813	–	42,813
Transfer	3,052	(3,052)	–	–
Impairment	(1,138)	–	–	(1,138)
Exchange difference	(11)	(2,719)	(324)	(3,054)
Closing net book amount	<u>3,052</u>	<u>271,898</u>	<u>16,421</u>	<u>291,371</u>
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>–</u>	<u>148,942</u>

Note (a):

As at 30 June 2020, the total cost of completed film rights amounting to approximately HK\$128,987,000 (31 December 2019: approximately HK\$125,910,000) and accumulated amortization and impairment amounting to approximately HK\$125,935,000 (31 December 2019: HK\$124,761,000).

No amortization of completed film rights has been charged in condensed consolidated interim income statement (2019: Nil).

For the six months ended 30 June 2020, an impairment of completed film rights amounting to approximately HK\$1,138,000 (2019: Nil) was recognized by using the latest available information and best estimate from the management and was included in cost of sales.

The Group has entered into certain joint operation arrangements to produce or distribute up to nine (31 December 2019: ten) films. The Group has participating interests ranging from 20% to 50% (31 December 2019: 7.5% to 50%) in these joint operations. As at 30 June 2020, 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 completed film rights and film production in progress of HK\$274,950,000 (31 December 2019: HK\$236,005,000).

Note (b):

The balance represented the Group's investments in films productions which entitled the Group to predetermined percentage of income to be generated from the films based on the Group's investment portion as specified in the film rights investment agreements.

14. PROGRAMMES AND FILM PRODUCTION IN PROGRESS

	Six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January	75,874	–
Addition	–	34,800
Interest receivables	2,478	451
Investment return withdrawn	(2,262)	–
Exchange difference	(557)	–
	<u>75,533</u>	<u>35,251</u>
At 30 June	<u>75,533</u>	<u>35,251</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 2020, the average effective interest rate for the outstanding balance was 7.1% (2019: 6.5%).

15. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 30 June 2020 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.

Nature of interest in an associate as at 30 June 2020 and 31 December 2019 is as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2020	2019	
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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Unlisted securities		
Huayi-Warner Contents Fund	<u>3,717</u>	<u>4,112</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 2020, 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 2020, the net fair value loss of HK\$395,000 (2019: HK\$657,000) was recognized in the condensed consolidated interim income statement.

17. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) Trade receivables

At 30 June 2020 and 31 December 2019, the aging analysis of the trade receivables based on invoice date were as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Over 1 year (<i>Note</i>)	8,272	8,310
Loss allowance	<u>(8,272)</u>	<u>(8,310)</u>
	<u>-</u>	<u>-</u>

As at 30 June 2020 and 31 December 2019, no 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 2020 and 31 December 2019 represented the exchange realignment.

(b) Prepayments, deposits and other receivables

As at 31 December 2019, the amounts included the pledged deposits of approximately HK\$320,960,000 which were used to secure the other borrowings of approximately HK\$321,029,000. During the six months ended 30 June 2020, the aforesaid pledged deposits had been used to settle the amount of other borrowings. For details, please refer to Note 19.

18. PLEDGED BANK DEPOSITS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Pledged bank deposits	<u>50,136</u>	<u>49,664</u>

The deposits of approximately HK\$50,136,000 (31 December 2019: HK\$49,664,000) with a bank were to secure the utilized portion of RMB100,000,000 banking facilities granted to the Group of RMB40,000,000 (equivalent to approximately HK\$43,791,000) as at 30 June 2020 (31 December 2019: HK\$44,653,000). The pledged bank deposits will be released upon the repayment of bank borrowings.

The carrying amounts of pledged bank deposits approximate their fair values and are denominated in HK\$.

19. BANK AND OTHER BORROWINGS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current		
Bank borrowings	43,791	44,653
Other borrowings (<i>Note</i>)	<u>–</u>	<u>321,029</u>
	<u>43,791</u>	<u>365,682</u>

Note: As at 31 December 2019, the amounts included borrowings provided by non-financial institutions, with a total amount of approximately HK\$321,029,000. The borrowings were interest-free, repayable in 12 months from the balance sheet date and were secured by deposits denominated in Renminbi amounted to RMB287,516,000 (equivalent to approximately HK\$320,960,000). During the six months ended 30 June 2020, the borrowings were fully settled.

As at the date of drawdown, the imputed interest represented the differences between the fair value and the principal amount of the borrowings amounting to approximately HK\$6,086,000 which was recognized in “Finance income” in the condensed consolidated interim income statement for the six month ended 30 June 2019 and is unwind over the loan period which was recognized in “Finance cost”. During the six months ended 30 June 2020, the finance cost of approximately HK\$2,774,000 (2019: HK\$517,000) was charged in the condensed consolidated interim income statement.

20. 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 2020 (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 2019 (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 2020 and 30 June 2020 (Unaudited)	<u>13,498,107</u>	<u>269,962</u>	<u>–</u>	<u>–</u>	<u>269,962</u>
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>

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 2020, no share option (2019: Nil) have been granted under the New Option Scheme and no share-based payment expense (2019: Nil) has been charged to the condensed consolidated interim income statement.

During the six months ended 30 June 2020, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Option Scheme as at 30 June 2020 (2019: Nil).

21. COMMITMENTS

Investment Commitments

At 30 June 2020 and 31 December 2019, total investment commitments in relation to certain film cooperation agreements entered into by the Group are analysed as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Not later than one year	<u>41,076</u>	<u>29,587</u>

22. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Save as disclosed elsewhere in these condensed consolidated interim financial information, the Group had the following related party transactions:

Name of party	Nature of transaction	30 June 2020 (Unaudited) HK\$'000	30 June 2019 (Unaudited) HK\$'000
華誼兄弟電影有限公司 ("Huayi Brothers Film Co., Ltd")* (Note)	Interest revenue calculated using effective interest method	1,070	–
華誼兄弟(天津)品牌管理有限公司 ("Huayi Brothers (Tianjin) Branding Management Co., Ltd")* (Note)	Film and TV programmes exhibition	80	–
Huayi Brothers International Limited ("HBI")	Interest revenue calculated using effective interest method	1,170	–
		<u>2,320</u>	<u>–</u>

* English name is made for identification purpose only

Note: Huayi Brothers Film Co., Ltd and Huayi Brothers (Tianjin) Branding Management Co., Ltd are the subsidiaries of Huayi Brothers Media Corporation, a substantial shareholder of the Company. The above transaction was conducted in the normal course of business of the Company and charged at terms mutually agreed by the parties concerned.

On 2 May 2019, the Company and HBI, a substantial shareholder of the Company, 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 HBI 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. Pursuant to the above cooperation framework agreement, the Group has entered into agreement for the investing in and carrying out media and entertainment projects with HBI and its associated company totaling approximately HK\$54,252,000 (2019: Nil) during the six months ended 30 June 2020.

(b) Related party balances

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Film rights and films production in progress		
— HBI	76,291	34,963
— Huayi Brothers Film Co., Ltd	16,421	16,745
— WR Brothers Inc. (<i>Note</i>)	48,439	49,094
Programmes and films production in progress		
— Huayi Brothers Film Co., Ltd	<u>28,826</u>	<u>28,281</u>
	<u>169,977</u>	<u>129,083</u>

Note: WR Brothers Inc. is the subsidiary of Huayi Brothers Media Corporation, a substantial shareholder of the Company.

23. CONTINGENT LIABILITIES

As at 30 June 2020, there are no material contingent liabilities to the Group (2019: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the six months ended 30 June 2020 (the “period” or the “first half of 2020”) are summarized in the table below:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Total revenue	42,356	48,076
Gross profit	17,456	18,052
Loss before finance cost and taxation	(14,997)	(7,921)
Loss for the period	<u>(11,601)</u>	<u>(8,653)</u>

Business Review

	Revenue		Segment Results	
	Six months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Entertainment and media operations	3,665	451	1,736	5,015
Offline healthcare and wellness services	<u>38,691</u>	<u>47,625</u>	<u>(6,290)</u>	<u>(3,736)</u>
Total	<u>42,356</u>	<u>48,076</u>	<u>(4,554)</u>	<u>1,279</u>

During the period under review, the theatres in the PRC and many other countries/regions worldwide were compelled to suspend their business altogether or to operate only on a limited scale due to the outbreak of the COVID-19. The Group had not arranged any new theatrical release in the period under review. Due to the increase in project interest income, the total revenue from the Entertainment and Media Operations of the Group was increased by 7 times to approximately HK\$3,665,000 (2019: HK\$451,000). Together with a drop by 19% in revenue for the offline healthcare and wellness services due to the outbreak of COVID-19, the Group's total revenue amounted to approximately HK\$42,356,000 (2019: HK\$48,076,000), representing a period-to-period decrease by about 12%. Furthermore, with the decrease in the Group's share of the results of an associate, HB Entertainment, the consolidated net loss of the Group during the period under review increased by 34% over the same period last year to HK\$11,601,000 (2019: HK\$8,653,000).

The Group has all along been actively looking for different opportunities in making deployment in the Entertainment and Media Operations. The long lead time between film production and distribution, the temporary suspension of film production under the wrath of the pandemic and the cessation of

operation of movie theatres worldwide have all resulted in the Group not arranging any new release during the period under review. The revenue contributed by the Entertainment and Media Operations was approximately HK\$3,665,000 (2019: HK\$451,000). Due to the share of loss from its associate of approximately HK\$396,000 (share of profit in 2019: HK\$5,221,000) and the impairment of film rights and film production in progress of approximately HK\$1,138,000 (2019: Nil) during the period under review, the Entertainment and Media Operations had seen its segment profit reduced to approximately HK\$1,736,000 (2019: HK\$5,015,000). With COVID-19 continues to rampage, the operations of cinemas in North America, higher-risk regions within the PRC and certain countries/regions in Europe and Asia have yet to resume normality. Nevertheless, the pandemic in some countries/regions began to show glimpses of subsidence and economic activities have gradually reopened. Amongst them, while theatres in Korea have returned to normal, cinemas in the low-risk regions in the PRC have staged a steady resumption of business since 20 July. The Group meanwhile has also been pursuing opportunities of cooperation with international streaming media platforms for presenting some new projects through these platforms to the audience worldwide. The Group is cautiously optimistic about the possibility of the global release of the film projects, which were previously completed in succession, in the second half of 2020 and in 2021 (detailed under “Business Review” section) when the revenue of the Entertainment and Media Operations of the Group is expected to improve.

During the period under review, the Group’s share of loss of HB Entertainment, in which the Group holds a stake of 31%, amounted to approximately HK\$396,000 (2019: share of profit of HK\$5,221,000). During the period the television dramas produced and aired by the HB Entertainment include “*Beautiful Love, Wonderful Life*” and “*365: Repeat the Year*” and both had performed strongly. The former, with its last episode broadcasted in March, had topped the weekly national viewership ranking between January and March, and had struck the highest national viewership at 32.3%, meaning that almost one third of the Koreans had witnessed the drama in front of the television. “*365: Repeat the Year*”, on the other hand, is a fantasy-thriller. It was adapted from a Japanese mystery novel called “*Repeat*” and narrates the story of ten persons experiencing mysterious events after being given the chance to travel back in time to a year ago. The theme of time travelling with a tight plot has appealed to the netizens and received raving reviews when it was aired in Korea. Yet, the relevant revenue from these two dramas were not confirmed with the TV stations until July 2020, thus have not been reflected in the Group’s share of results of an associate for the period under review.

“Bayhood No. 9 Club” was the major source of revenue for the healthcare and wellness services with proceeds generated from membership subscription, green fee and food and beverages, etc. Originally concentrating on high-end customers, the club has been gradually reinventing its position by extending its target customer group to the mid-end ones. The outbreak of COVID-19 coincided with the conventional closure of the golf course during the winter season, and its re-opening at the end of March came at a time when there was growing awareness of the importance of outdoor activities and personal health in face of the pandemic. While the business of golfing has hence resumed its briskness, the overall revenue of the healthcare and wellness services decreased, since the food-and-beverages-related business had to remain shut down or could only have limited operation for a considerable amount of time due to the fickleness of COVID-19. As a result, there was a period-to-period drop in revenue from

the relevant operations during the period under review by 19% to approximately HK\$38,691,000 (2019: HK\$47,625,000), together with an increase in segment loss of 68% to approximately HK\$6,290,000 (2019: HK\$3,736,000).

Market Review

COVID-19 forays against the world in 2020 and deals the global economy a heavy blow. To combat the outbreak, many industries in the PRC had to suspend operations. In the first half of the year, the annual Gross Domestic Product of the PRC had dropped by 1.6% year-on-year to RMB46 trillion, but the overall performance of the economy has recovered gradually. During the first half of the year, the nationwide average per capita disposable income was RMB15,666, i.e. down by 1.3% on inflation-adjusted basis as compared to the same period of last year, with that of the urban residents being RMB21,655. The decrease in income was due to the freeze of most working as a result of the pandemic. The average per capita spending stood at RMB9,718, representing a period-to-period decrease of 9.3% on inflation-adjusted basis, with the average per capita spending on educational, cultural and entertainment decreased by 35.7% to RMB664 (accounting for 6.8% of the average per capital spending). It reflects the fact that the pandemic had undermined the desire of going out and spending on entertainment, with most of the public choosing to stay at home instead.

The PRC accounts for the second largest box office in the world. To comply with the preventive measures against the epidemic as announced by the government, over 70,000 cinemas in the PRC had to suspend their operations fully in the first half of 2020. Most films therefore could not be released as scheduled, and some even had to be withdrawn altogether. In the first two months of 2020, the box office receipts in Mainland China had a significant period-to-period drop to only US\$3.90 million from US\$2.148 billion last year. The China Film Administration has also pointed out that, on a conservative estimate, the loss of total box office receipts may well exceed RMB30 billion in 2020 in spite of the government's supportive policies to combat the direct economic loss of and the impact on the film industry brought forth by the pandemic. A slowdown in expansion has already seen the Chinese film mark in going through the stage during with emphasis shifting from quantity to quality, and the pandemic now is catalysing the process of the lesser being eclipsed by the excellent ones. The audience are now attaching greater importance to the calibre and theme of a film and they prefer films with high reputation, meaning that an enrichment in standard and reputation has become the key to success in box office. The Group has therefore persisted in actively investing in and producing top-notch movies and consolidating its position in the market.

Not even the film market in North America can stay aloof from COVID-19 which has overrun the market. Many studios, including the Walt Disney Company and Warner Bros., decided to halt the filming or suspend the screening, and a dozen of movies were affected. With theatres across the globe closing in turn, every film market has gone into hibernation. According to "Hollywood Reporter", the global box office receipts had already suffered a loss of US\$7 billion and the figure may soar to US\$17 billion if the pandemic spirals out of control. The recovery of the entire film market hinges on how the plague unfolds, and it is expected that the industry will still face formidable challenge in the second half of the year.

The Korean film market likewise languished under the pandemic during the period under review with its box office receipts nosedived by 70%. In spite of the similar setback of having movies forced to pull out and filming forced to stop, the Korean movies continue to catch the attention of many. “*Parasite*” became the first foreign-language film to win the Best Picture in the Academy Awards 2020 and the first Korean film to win the Palme d’Or at the Cannes Film Festival. The accolades are telling indications that Korean films are acclaimed by the local audience and also recognised by the international film markets, and, with their tremendous potential, they will gain further popularity in different markets. With the epidemic easing slightly, the operation of the cinemas in Korea has gradually resumed normalcy since June. “*#Alive*”, a zombie thriller starring Park Shin-hye, has already drawn more than a million audiences within five days after it was screened on 24 June, and the figure has since grown to over 1.8 million. Meanwhile, “*Peninsula*”, released on 15 July 2020, proved to be a great success in box office: it became the best-performing Korean film this year in terms of box office proceeds on the day of debut after 350,000 theatregoers poured to see the screening, and the number of audience in total rocketed to over 2 million merely a week later. The film has also topped the box office receipts on its debut in the likes of Taiwan and Singapore. The aforementioned statistics are useful reference for the passion of the Koreans for returning to the theatres. In view of the rapid recuperation of the market, “*Space Sweepers*”, Korea’s first science-fiction space feature film project which was invested in and co-produced by the Group, will release on 23 September this year (the mid-autumn festive period in Korea) and is expected to proffer significant returns to the Group.

Business Review

(1) *Entertainment and Media Operations*

The Chinese film market, while already underdoing a structural adjustment with the excellent ones outcompeting the rest, sees such reshaping and reshuffling speeded up by COVID-19 which had knocked out the film industry across the world with a sucker punch. The Group has all the way been reinforcing its deployment in the film market and participating in projects in Hollywood of the United States, Korea and China. These projects are expected to be screened successively in the second half of 2020 and in 2021 when the pandemic eased off.

The Group always tracks the trend and development of the film market, as well as the change in the audience’s penchant for genres. At the same time, it has been actively looking for appropriate media and entertainment projects in the North American market. One of the projects is “*Moonfall*”, a Hollywood science-fiction and disaster epic co-invested in and co-produced by the Group along with Huayi Brothers International Limited. The film is directed by Roland Emmerich, the director of “*2012*”, “*The Day After Tomorrow*” and “*Independence Day*” series and is a production in partnership with Roland Emmerich, Centropolis Entertainment, Street Entertainment, Huayi Brothers International Limited and the Group. It narrates that the moon is driven out of orbit by a mysterious force and is on course for collision with the Earth. The gravitational imbalance sends the Earth into chaos, and amidst desperation a seemingly disorganized squad decides to fight the final battle to protect the Earth and humankind. The shooting will commence in September this year and those playing a leading role in the movie include Patrick Wilson (who played a leading role in “*Aquaman*” and “*Midway*”), Halle Berry (who starred in “*John Wick: Chapter 3* —

Parabellum”, “*X-men*” and “*Catwoman*” and was the winner of the Academy Award for Best Actress) as well as Josh Gad (who voiced Olaf in the “*Frozen*” series). The Group has also secured the distribution rights of the film in the PRC. Tentatively the film will be screened worldwide around the second half of 2021 or 2022, subject to the development of the pandemic.

Besides, the Group has financed and co-produced “*Cherry*” and “*Extinct*” (an original animated comedy targeted for family viewing), and both have entered the post-production stage during the period under review. They are scheduled to release in the second half of 2020 or 2021. “*Cherry*” is the first movie directed by the Russo Brothers (Anthony Russo and Joe Russo) since “*Avengers: Endgame*”, and is starred by Tom Holland who featured in the “*Spiderman*” series. As for “*Extinct*”, it is directed by David Silverman (the director of “*The Simpsons Movie*” and “*Monsters, Inc.*” who has been honoured with four Emmy Awards) and the voice cast features Zazie Beetz (who has starred in “*Deadpool 2*” and “*Joker*”).

The Group has invested a minority stake in “*Eight Hundred*”, an epic war movie produced by Huayi Brothers, which was theatrically released in the PRC since 21 August 2020. “*Eight Hundred*” has earned positive critics in general, and its box office has already exceeded RMB1.2 billion as of the date of this interim results announcement.

With regard to the Korean market, the Group remains optimistic about the demand for Korean films and television dramas in the domestic and overseas markets, with the former being one of the few which had rapidly bounced back from the pandemic. “*Space Sweepers*”, the first science-fiction feature film project in Korea financed and co-produced by the Group (which also acquired the film’s distribution rights in the PRC), will make its theatrical release in Korea on 23 September this year (the mid-autumn festive period). It is directed by Jo Sung-hee (the director of “*A Werewolf Boy*” and “*The Phantom Detective*”) and is starring superstars like Song Joong-ki (the leading actor of “*Descendants of the Sun*” and “*The Battleship Island*”), Kim Tae-ri (the main actress of “*The Handmaiden*” and “*1987: When the Day Comes*”) and outstanding actors such as Yu Hae-jin and Jin Seon-kyu (who featured in “*Extreme Job*” which nabbed the top spot at the Korean box office in 2019). Together with a production budget of KRW24 billion (equivalent to approximately HK\$160 million), the film is expected to become the talk of the town in 2020 and contribute a significant amount of return to the Group. In addition, through the Huayi-Warner Contents Fund which was established jointly by the Group, Warner Bros. Korea et al., the Group will also continue to identify top-rated and fitting investment projects in order to further enrich the Group’s earnings from Korean film projects.

HB Entertainment, an associate in which the Group holds a stake of 31%, is principally engaged in the production of and the investment in prime films and television dramas in Korea, as well as the management of artistes. During the period under review, HB Entertainment produced and aired “*Beautiful Love, Wonderful Life*” and “*365: Repeat the Year*”, with both attaining commendable results. “*Beautiful Love, Wonderful Life*” in particular has been hailed as one of the most popular television dramas ever in Korea, as evidenced by its viewing rate: 32.3% at its peak, followed by 31.5% during the broadcast of the finale on 22 March 2020. Couple with the national viewership rating of “*Sky Castle*” (setting a record high at 23.8% during its broadcast last year), the

popularity of HB Entertainment's products is indisputable. Thanks to its outstanding ability in media production and 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 Korea.

(2) *Healthcare and Wellness Services*

During the period under review, the Group's healthcare and wellness services focused on the operations of "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 "Bayhood No. 9 Club" remained steady during the period under review, and the offline healthcare and wellness services contributed approximately HK\$38,691,000 (2019: HK\$47,625,000) in revenue to the Group in the first half of 2020, representing a drop of 19% as compared to the corresponding period last year. The outbreak of COVID-19 coincided with the conventional closure of the golf course during the winter season, and its re-opening at the end of March came at a time when there was growing awareness of the importance of outdoor activities and personal health in face of the pandemic. Therefore, golf playing has actually become even more popular. With the pandemic being fickle, the food-and-beverages-related business had to be shut down for a considerable amount of time or could only operate to a limited extent, resulting in a decrease in the overall revenue.

The increase in demand for the healthcare and wellness services during the pandemic however comes at the same time with the keen competition in the market and the rise of costs (such as staff cost, water charge, etc.). The Group 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, which are basically self-sustaining at present.

Business Outlook

The entire film industry has been ambushed and hit hard by COVID-19 in the first half of 2020 with operations almost coming to a complete halt. In the second half of 2020 and the coming year, it is expected that film production in different countries/regions across the world will gradually resume after the implementation of respective disease prevention measures. With the steady improvement of the situation, the theatres in certain countries/regions in Europe and Asia have already re-opened, and the China Film Administration has also announced that cinemas in low-risk areas in the PRC may resume services orderly since 20 July. The local film market in Korea has even made a strong rebound. With the projects financed and produced by the Group within the past two financial years being completed in succession, it is expected that the Group will have at least three or four films ready for release in the second half of 2020 and in 2021, provided that the epidemic has stabilised. Amongst them, "*Space*

Sweepers”, a Korean science-fiction space film, is set for its theatrical release on 23 September in Korea. The Group is confident that these films are on course for laudable box office results and enhance as a result the Group’s revenue of the Entertainment and Media Operations.

On another note, the internet has led to multiple effects on the film industry, including an intensified competition with cinema industry. In 2018, 84.5% of the movie ticket purchases in the PRC were made online, and such preference has improved the transparency in box office numbers. Online marketing channels were increasingly concentrated in ticketing platforms, social media and video websites, indicating the heightened importance of short video platforms in movie marketing. The pandemic has confined most of the public at home: they have reduced the frequency of going out and spending and now make their daily consumption, including the expense on entertainment, “online” or “at home” instead. This results in the blossom of the viewership and influence of many video streaming platforms. The Group has been actively strengthening its cooperation with many of these international platforms so as to present more top-notch films and television dramas to the audience through different means.

Films from the North America retain their tremendous prestige in the markets worldwide, with Hollywood blockbusters dominating in particular. It is envisaged that such supremacy will continue in the coming few years. The Group has been actively seeking global opportunities for investing in and producing prime films and television dramas, and has already confirmed its investment in several film projects, including “*Moonfall*”, a Hollywood science-fiction and disaster epic which is expected to be released in late 2021 or 2022. The Group will continue to develop projects with elite film studios and producers in North America and Europe, etc., so that different types of superb works may be continuously presented to the audience.

In recent years the Korean films have been eye-catching. These high-grossing blockbusters were laden with international awards and have conquered worldwide audience. On a relatively lower budget, the Korean films have been able to offer fashionable themes and trends, thereby diversifying their appeals and broadening their audience base. The Group believes that high-quality Korean films and television dramas will be in strong demand in other Asian markets and even the whole world, and will therefore strive for opportunities to invest in more prime Korean films and television dramas as well as step up its efforts in hoarding up quality Korean intellectual properties through HB Entertainment, its associate. As there are signs of the Korean entertainment and culture staging a comeback in the PRC market, the Group will seize the chance and introduce preeminent Korean films and television dramas into the PRC.

COVID-19 remains rampant, inhibiting and affecting the film markets everywhere. In order to minimise the repercussions, the Group will continue to closely monitor the latest development of the epidemic, coordinate with distributors worldwide and adjust its business strategies properly. The Group will also determine a suitable timetable for the release of films in the PRC and the world in accordance with the actual time of the re-opening of theatres. As for the offline healthcare and wellness services, “Bayhood No. 9 Club” has resumed business in the later half of March after the pandemic was gradually under control in the PRC. It has since yielded stable proceeds. The Group will stay tuned to the latest development of the pandemic and maintain the prevention measures in the club so that it may continue its steady operation.

FINANCIAL REVIEW

Total revenue for the six months ended 30 June 2020 amounted to approximately HK\$42,356,000 (2019: HK\$48,076,000), being a 12% decrease comparing to the same period in prior year. Due to the COVID-19 outbreak, there was no new film being released by the Company and its subsidiaries during the period. However, project interest revenue calculated using the effective interest rate method soared nearly 7 times during the period, resulting in revenue from the “Entertainment and Media” segment increased to approximately HK\$3,665,000 (2019: HK\$451,000) for the six months ended 30 June 2020. Revenue from “Offline Healthcare and Wellness Services” segment still accounts for majority of the Group’s revenue, amounting to approximately HK\$38,691,000 (2019: HK\$47,625,000) for the six months ended 30 June 2020, being a 19% 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 62% drop in food and beverage income, as the restaurant operations of “Bayhood No. 9 Club” has been suspended for a prolonged period of time during the COVID-19 outbreak in the PRC in the first half of 2020.

Cost of sales for the six months ended 30 June 2020 amounted to approximately HK\$24,900,000 (2019: HK\$30,024,000), being a 17% decrease comparing to the same period in prior year. In line with the prolonged suspension of certain operations of “Bayhood No.9 Club” during the COVID-19 outbreak in the PRC, the decrease in cost of sales was mainly attributed to the drop of revenue from “Offline Healthcare and Wellness Services” segment as mentioned above. Cost of sales during the period also includes an impairment of film rights and film production in progress of approximately HK\$1,138,000 (2019: Nil). Gross profit for the six months ended 30 June 2020 remained stable at approximately HK\$17,456,000 (2019: HK\$18,052,000) with gross profit margin increased to 41% (2019: 38%), thanks to the high profit margin of soaring project interest revenue during the period.

Other income and other (losses)/gains, net, mainly comprising of exchange differences, interest income and fair value change in financial assets at fair value through profit or loss, amounting to a net loss of approximately HK\$557,000 (2019: net gain of HK\$1,992,000). The fluctuation during the period was mainly attributable to the decrease in interest income and increase in exchange losses, net.

Administrative expenses for the six months ended 30 June 2020 slightly reduced by 5% to approximately HK\$31,500,000 (2019: HK\$33,186,000), mainly due to the prolonged suspension of certain operations of “Bayhood No. 9 Club” during the COVID-19 outbreak in the PRC.

Share of results of an associate for the current period represented the share of loss of HB Entertainment, an associated company of the Group. During the first half of 2020, HB Entertainment had produced two television dramas, namely “*Beautiful Love, Wonderful Life*” and “*365: Repeat the Year*”. However, the revenue in relation to these two TV dramas were only finalized with the domestic TV stations in July 2020, as such a significant portion of profit margin of these two TV dramas have not been included in the share of results of an associate for the six months ended 30 June 2020.

Finance income/(costs), net, representing the 1) net of imputed finance income and imputed finance costs on discounting other borrowings and certain deposits paid amounting to a net costs of approximately HK\$28,000 (2019: HK\$112,000); 2) interest on bank borrowings of approximately HK\$1,201,000 (2019: Nil) incurred for financing film rights investment acquired in the second half of 2019; 3) interest on new lease liabilities incurred during the period of approximately HK\$1,677,000 (2019: Nil); and 4) exchange gain on revaluation of other borrowings during the period. The increase in net amount during the six months ended 30 June 2020 was mainly attributed to this significant exchange gain of approximately HK\$6,322,000 (2019: Nil).

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 2020, the Group held cash and cash equivalents of approximately HK\$147,381,000 (31 December 2019: HK\$198,248,000), being a 26% decrease comparing to the balance as at 31 December 2019.

The Group is at net current asset position of HK\$108,227,000 as at 30 June 2020 (31 December 2019: HK\$276,042,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.73 as at 31 December 2019 to 1.58 as at 30 June 2020, still representing a healthy liquidity position.

The gearing ratio, representing the net debt (total borrowings and total lease liabilities less cash and cash equivalents and pledged bank deposits) to total equity, is not applicable due to net surplus as at 30 June 2020 (31 December 2019: 15%). The Group's total interest-bearing bank borrowings as at 30 June 2020 amounted to approximately HK\$43,791,000 (31 December 2019: HK\$44,653,000) and was denominated in Chinese Renminbi. The interest-bearing bank borrowings were used to finance investments in films, and was subsequently fully repaid on 30 July 2020.

Foreign Currency Exchange Exposure

The Group has operations and investments in China, Korea, the USA and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the period, fluctuation in Chinese Renminbi and Korean Won against Hong Kong dollars resulted in the net exchange loss of approximately HK\$1,342,000 (2019: HK\$182,000) and exchange gain related to revaluation of other borrowings of approximately HK\$6,322,000 (2019: Nil). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and 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, bank and other borrowings and internally generated cash flow to finance its operations.

During the six months ended 30 June 2020 and 2019, the Company has not issued new ordinary shares.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2020, the Group's secured bank and other borrowings of HK\$43,791,000 (31 December 2019: HK\$365,682,000) were secured by pledged deposits amounting to HK\$50,136,000 (31 December 2019: HK\$370,624,000).

As at 30 June 2020 and 31 December 2019, the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 30 June 2020 the Group employed a total of 28 (31 December 2019: 27) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 366 (31 December 2019: 396) full-time employees in the PRC. In addition, the Group has entered into several joint operation arrangements to produce or distribute films. The crew members employed under such joint operation arrangements have not been included in the above statistics.

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 2020, 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 of the Company and its shareholders as a whole 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 EMPLOYEES

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 2020.

The Code of Conduct applies to all the relevant employees 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, is 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 2020 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 2020 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, 26 August 2020

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. HU Junyi, Mr. YUEN Hoi Po

Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo