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Television Broadcasts Limited

電視廣播有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 00511

PROFIT WARNING

IMPAIRMENT AND FAIR VALUE LOSS OF SMI BONDS

DECLINE IN ADVERTISING REVENUE

By way of background, the Group reported a loss attributable to equity holders of HK\$199 million in the year ended 31 December 2018 (“**Year 2018**”), which was after an impairment charge/loss of HK\$500 million in relation to the SMI Bonds. By deduction, the Group’s results for Year 2018, before the impairment charge/loss, was a profit attributable to equity holders of HK\$301 million.

Since the beginning of social unrest in June 2019, adversity in the economy and business environment in Hong Kong, and uncertainties in global markets have given rise to sharp decline in the Group’s advertising revenue. This decline brought a marked negative effect on the reportable results of the Hong Kong TV Broadcasting segment “**Broadcasting Segment**” and on the Group’s results, before any impairment charge/loss, for the year ended 31 December 2019 (“**Year 2019**”). Based on a preliminary set of unaudited consolidated management accounts of the Group, the Group estimates that its net profit for Year 2019, before any impairment charge/loss, will be small.

Based on the information provided by SMI through announcements and the recovery efforts made to date, the Special Taskforce together with the Board are of the view that any recovery of the remaining Carrying Value of the SMI Bonds amounting to HK\$330 million through the winding up petition of SMI made by the Company, is not likely. Furthermore, the recent outbreak of novel coronavirus pneumonia (COVID-19) has halted operation of cinemas in Mainland China, and this has created a very significant adverse impact on the prospect of any economic recovery of the SMI Bonds. Therefore, the Board is of the view that the fair value of the Convertible Bonds be reduced to a minimal value with the fair value loss be recorded in Year 2019, subject to agreement with the Group’s auditor.

Based on the above, the loss attributable to equity holders of the Company for Year 2019, after the impairment charge/loss, has been estimated to exceed the net loss of HK\$199 million reported in Year 2018.

The Board supports a policy to provide dividends to shareholders. When making declaration of any final dividend for Year 2019, the Board will take into account several factors particularly the related EBITDA of the year.

This announcement is made by Television Broadcasts Limited (the “**Company**”, together with its subsidiaries, collectively, the “**Group**”) pursuant to the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

Decline in Advertising revenue

Since the beginning of social unrest in June 2019, adversity in the economy and business environment in Hong Kong, and uncertainties in global markets have given rise to sharp decline in the Group’s advertising business.

The Group’s expenditure under the Broadcasting Segment, including programme and overhead costs, is largely fixed. As a result, the sharp decline in advertising revenue brought a marked negative effect on the reportable results of the Broadcasting Segment and on the Group’s results, before any impairment charge/loss, for Year 2019.

With the likelihood of a prolonged period of weak business environment, the Group implemented significant measures in December 2019 to rationalise costs. The impact of these cost savings will take effect over the course of the 2020 financial year.

Impairment and fair value loss of SMI Bonds

Reference is made to the announcements made by the Company dated 21 August 2019, 13 June 2019, 14 May 2019, 20 March 2019, 15 March 2019 and 2 May 2018. Capitalised terms have the meanings given to them in these announcements unless otherwise defined herein.

The Company holds US\$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) (“**Fixed Coupon Bonds**”) and US\$83 million 7.5% secured redeemable convertible bonds due 2020 (extendable to 2021) (“**Convertible Bonds**”) and together with the Fixed Coupon Bonds, the “**SMI Bonds**”) both issued by SMI Holdings Group Limited (“**SMI**”). Trading in the shares of SMI has been suspended on the Stock Exchange since 3 September 2018, and has not resumed as of the date herein.

In respect of the Fixed Coupon Bonds, a full impairment charge of HK\$180 million (approximately US\$23 million) was previously recognised in the accounts for the Year 2018. As at 30 June 2019, the Company's last reporting date, the book value of the Fixed Coupon Bonds carried forward was nil.

In respect of the Convertible Bonds, the Company performed a fair value assessment of the Convertible Bonds at 31 December 2018 and a fair value loss of HK\$320 million (approximately US\$41 million) against the Convertible Bonds was recognised in the accounts in Year 2018. As at 30 June 2019, the fair value of the Convertible Bonds remained at HK\$330 million (approximately US\$42 million ("**Carrying Value**").

Working with its advisers, the Special Taskforce of the Board had explored different means to recover outstanding amounts owing under the SMI Bonds.

The Board has taken note of the following relevant developments:

1. The trading in the shares of SMI has been suspended on the Stock Exchange since 3 September 2018, and to date, has not been resumed.
2. The Company's financial adviser for recovery of the amounts invested in the defaulted SMI Bonds had uncovered during searches in Mainland China that the shares of at least 19 subsidiaries of 成都潤運文化傳播有限公司 (Chengdu Runyun Culture Broadcasting Limited or "**Chengdu Runyun**") had been pledged to third parties for financial accommodation.
3. Since August 2019, the Company has engaged two additional firms of financial advisers to solicit interests in acquiring the SMI Bonds and has, itself, sought expressions of interest from parties interested in purchasing the SMI Bonds from the Company. No offers to acquire the SMI Bonds have been received by the Company.
4. On 2 September 2019, a petition for winding up of SMI was filed in the High Court by the Company (with the action number being 108/2019). A court hearing date has been fixed for 1 April 2020.
5. On 11 September 2019, SMI announced that it had entered into a MOU with SMI Culture & Travel Group Holdings Limited ("**SMI Culture**") in respect of mutual intention on the possible disposal of all of the equity interest beneficially held by SMI in Chengdu Runyun, and all other cinema interests in Mainland China beneficially owned by the SMI Group to SMI Culture. The consideration for the sale shall be discharged by SMI Culture to SMI by issuance of SMI Culture's shares based on a consideration to be finally determined ("**Proposed Acquisition**"). Chengdu Runyun is directly owned as to 41% by SMIC, and SMI together with its subsidiaries have an effective interest of approximately 84.3% in Chengdu Runyun. On 2 December 2019, SMI further announced that the MOU does not impose legally binding obligations in the parties, and no formal agreement had been entered into between the parties in relation to the possible disposal. There has not been any update as to the progress of the Proposed Acquisition.

6. On 29 October 2019, SMI announced that its indirectly wholly-owned subsidiary SMI International Cinemas Limited (“SMIIC”) was served with a petition dated 23 October 2019 filed by 北京華觀鼎成文化發展有限責任公司 (Beijing Huaguan Dingcheng Culture Development Company Limited) for an order that SMIIC be wound up by the High Court. SMIIC holds a 41% shareholding interest in Chengdu Runyun, and the shares of SMIIC have been pledged to the Company by Campbell Hall Limited as security for the monies outstanding to the Company owing under the Convertible Bonds.
7. On 2 December 2019, SMI announced unaudited financial information for the year ended 31 December 2018 as extracted from the draft management accounts of the SMI Group, which disclosed an unaudited loss for the year ended 31 December 2018 of HK\$2,739 million (2017: audited loss for the year of HK\$267 million), which represented a loss of more than 10 times compared to that in the previous financial year. It was also disclosed that the unaudited net assets of SMI as at 31 December 2018 was HK\$5,443 million, representing a significant decrease from the audited net assets of HK\$8,174 million at the previous financial year end. For the release of its audited report and accounts for the year ended 31 December 2018, SMI has repeatedly postponed the convening of the board meeting for the purpose of approval of the accounts.
8. On 1 November 2019, Emperor Securities Limited by way of summons applied to the High Court (action number HCA 32/2019) for an order to appoint interim receivers over the 63.01% shareholding, which is equivalent to 829,185,517 shares, in SMI Culture, which secures the liabilities owing by SMI Investment (HK) Ltd (“SMI HK”), which is a subsidiary of SMI, to Emperor Securities Limited. Emperor Securities Limited applied for such an order out of the concern that the Proposed Acquisition would dilute the shares that are charged in favour of Emperor Securities Limited from 63.01% to 1.25%. On 10 January 2020, the High Court handed down the judgment granting Emperor Securities Limited's application.
9. The recent outbreak of novel coronavirus pneumonia (COVID-19) has halted operation of cinemas across Mainland China, including the cinemas operated by SMI's subsidiary companies according to an update in the announcement made by SMI dated 5 February 2020. Due to the large scale impact of this outbreak and its anticipated impact on the economy, the Company takes a negative view on the ability of SMI to return to normal level of operations, even when the spread of coronavirus can be contained, and this event has created a very significant adverse impact on the prospect of any economic recovery of the SMI Bonds.

Impairment and fair value loss

Having reviewed and discussed the matter with its advisers, and based on the developments so far as stated above, the Special Taskforce together with the Board are of the view that any recovery of the remaining Carrying Value of the SMI Bonds amounting to HK\$330 million through the winding up petition of SMI, is not likely.

The Board is of the view that the fair value of the Convertible Bonds be reduced to a minimal value with the fair value loss be recorded in the accounts for Year 2019, subject to agreement with the Group's auditor.

Financial impact

In Year 2018, the Group reported a loss attributable to equity holders of HK\$199 million, which was after an impairment charge/loss of HK\$500 million in relation to the SMI Bonds. By deduction, the results for Year 2018 before the impairment charge/loss was a profit attributable to equity holders of approximately HK\$301 million.

The impact of decline in advertising revenue under the Broadcasting Segment in Year 2019 has been significant on the Group. Based on a preliminary set of unaudited consolidated management accounts of the Group, the Group estimates that its net profit for Year 2019, before any impairment charge/losses, will be small.

Based on the above, the loss attributable to equity holders of the Company for Year 2019, after impairment charge/loss, has been estimated to exceed the net loss of HK\$199 million reported in Year 2018.

Dividend

The Board would like to re-iterate that it supports a policy to provide dividends to shareholders, as set out in the Company's Dividend Policy. When making declarations of any final dividend for Year 2019, the Board will take into account several factors particularly the related EBITDA of the year.

This announcement is made by the Company, pursuant to the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange.

The financial information contained in this announcement is based on the preliminary unaudited management accounts of the Group and the information currently available to the Group. It has not been reviewed or audited by the Group's auditor.

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

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 13 February 2020

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

Vice Chairman and Non-executive Director

LI Ruigang

Executive Directors

Mark LEE Po On Group Chief Executive Officer

Thomas HUI To

Non-executive Directors

Anthony LEE Hsien Pin

CHEN Wen Chi

Independent Non-executive Directors

Dr. William LO Wing Yan JP

Professor Caroline WANG Chia-Ling

Dr. Allan ZEMAN GBM, GBS, JP

Felix FONG Wo BBS, JP

Belinda WONG Ching Ying