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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

ANNOUNCEMENT OF 2019 INTERIM RESULTS

RESULTS HIGHLIGHTS

For the six months ended 30 June 2019 ("Period"):

- Profit attributable to equity holders of the Company increased from HK$201 million to HK$213 million, an increase of 6%. Earnings per share increased from HK$0.46 per share to HK$0.49 per share.

- Adjusted EBITDA* increased from HK$466 million to HK$503 million, an increase of 8%.

- An interim dividend of HK$0.30 per share was declared by the Board (2018: interim dividend of HK$0.30 per share).

- Revenue decreased from HK$2,231 million to HK$1,965 million, a decrease of 12% which was mainly due to the absence of co-production revenue recognised during the Period. Co-production revenue for the first half of 2018 amounted to HK$194 million. It is anticipated that as the business resumes, co-production income for 2019 can be recognised in the second half of the financial year.

- Included in Revenue, income from advertisers under Hong Kong TV broadcasting decreased from HK$1,151 million to HK$1,136 million, a decline of 1%. Income from new media, myTV SUPER and the Big Big Channel business, in aggregate, rose from HK$210 million to HK$287 million, an increase of 37%.

- Total costs decreased from HK$1,987 million to HK$1,724 million, a reduction of 13%, particularly due to the absence of co-production costs in the Period.

BUSINESS HIGHLIGHTS

- Registered users of myTV SUPER service increased to over 7.7 million as of 30 June 2019. With enlarged user base and steadily increasing consumption, subscription and advertising income from myTV SUPER increased from HK$182 million to HK$226 million, a 24% growth year-on-year, which helped to improve segment profit.

- Big Big Channel business focus on social media advertising, e-commerce and events management. Income increased from HK$27 million to HK$61 million, a growth of 2.2 times, and these businesses have started to contribute segment profit to the Group.

- Co-production of drama serials with Mainland's online players was temporarily disrupted due to certain administrative policies of the Mainland's authorities. This resulted in a temporary deferral of co-production of drama schedule during the Period. Co-production has resumed in the second half of 2019.

SMI BONDS

- There have been a number of developments since 31 December 2018, including the discovery of unauthorised pledges of shares by SMI, and the Company's plan to submit a new petition to the court to wind-up SMI following the settlement of HSBC's petition in August 2019. Details of these developments are set out under "SMI Bonds" on page 46 of this announcement.

- The Board has commissioned an independent valuation of the SMI Bonds as at 30 June 2019, and has formed the view that no change in the carrying value of the SMI Bonds was considered necessary at this stage.

- Since its formation, the Special Taskforce has been working expeditiously with its advisers and the Company on enforcement and recovery actions with the objective to maximise the recovery of the amounts invested in the SMI Bonds. In the coming months, the Company, together with Special Taskforce, will continue to assess all available options, and will further assess the need for impairment, if any, at the end of this financial year.

OUTLOOK

- Income from the Group's Hong Kong businesses (particularly conventional and new media advertising) might be adversely affected by the turbulent domestic markets, caused by the current local political unrest, and uncertainties associated with the trade dispute between China and the USA. The Company is endeavoring to mitigate impact by widening advertising client base, aggressive business development in the Mainland and overseas countries, and continuing enhancement of cost efficiencies.

* Reconciliation of Profit for the period to Adjusted EBITDA:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Profit for the period	**233,134**	227,436
Finance costs	**56,852**	68,555
Interest income	**(96,580)**	(110,128)
Income tax expense	**46,465**	48,931
Depreciation and amortisation	**234,822**	205,899
Share of losses of joint ventures	**52,705**	49,589
Share of profits of associates	**(1,186)**	(139)
(Reversal of impairment loss)/impairment loss on trade receivables	**(43,313)**	5,790
Impairment loss on bond securities at amortised cost	**20,000**	–
Fair value gain on financial assets at fair value through profit or loss	**–**	(3,082)
Gain on disposal of investment properties	**–**	(27,058)
Adjusted EBITDA	**502,899**	465,793

Note:

Adjusted EBITDA is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards. The computation of the Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

The Board of Directors ("Board") of Television Broadcasts Limited ("Company" or "TVB") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, "Group") for the six months ended 30 June 2019 ("Period") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	**Unaudited Six months ended 30 June 2019 HK$'000**	2018 HK$'000
Revenue	3	**1,965,336**	2,230,585
Cost of sales		**(911,261)**	(1,144,747)
Gross profit		**1,054,075**	1,085,838
Other revenues		**10,437**	17,439
Interest income		**96,580**	110,128
Selling, distribution and transmission costs		**(324,133)**	(365,287)
General and administrative expenses		**(488,279)**	(477,194)
Other gains, net		**15,977**	2,180
Reversal of impairment loss/(impairment loss) on trade receivables		**43,313**	(5,790)
Impairment loss on bond securities at amortised cost		**(20,000)**	–
Gain on disposal of investment properties		**–**	27,058
Finance costs		**(56,852)**	(68,555)
Share of losses of joint ventures		**(52,705)**	(49,589)
Share of profits of associates		**1,186**	139
Profit before income tax	4	**279,599**	276,367
Income tax expense	5	**(46,465)**	(48,931)
Profit for the period		**233,134**	227,436
Profit attributable to:			
Equity holders of the Company		**212,634**	201,341
Non-controlling interests		**20,500**	26,095
		233,134	227,436
Earnings per share (basic and diluted) for profit attributable to equity holders of the Company during the period	6	**HK$0.49**	HK$0.46

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Profit for the period	**233,134**	227,436
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss:		
Currency translation differences		
– Group	**(8,093)**	(13,063)
– Joint ventures	**545**	18
Share of other comprehensive loss of an associate	**(191)**	(1,405)
Other comprehensive loss for the period, net of tax	**(7,739)**	(14,450)
Total comprehensive income for the period	**225,395**	212,986
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**205,320**	189,743
Non-controlling interests	**20,075**	23,243
Total comprehensive income for the period	**225,395**	212,986

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	**30 June 2019 Unaudited HK$'000**	31 December 2018 Audited HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,732,944**	1,811,070
Right-of-use assets	2a(i)	**78,648**	–
Investment properties		**28,613**	29,367
Land use rights		**47,955**	49,486
Intangible assets		**175,678**	140,160
Interests in joint ventures	8	**653,104**	707,242
Interests in associates		**163,124**	162,129
Financial assets at fair value through other comprehensive income		**39,775**	39,775
Financial assets at amortised cost	9	**1,978,530**	2,241,328
Financial assets at fair value through profit or loss	10	**330,015**	330,015
Deferred income tax assets		**9,373**	16,060
Prepayments	11	**66,281**	83,982
Total non-current assets		**5,304,040**	5,610,614
Current assets			
Programmes and film rights		**1,159,274**	969,842
Stocks		**41,310**	40,912
Trade and other receivables, prepayments and deposits	11	**2,078,798**	2,297,450
Interests in joint ventures	8	**65,022**	30,375
Tax recoverable		**18,001**	21,296
Financial assets at amortised cost	9	**250,612**	15,652
Restricted cash		**1,399**	1,406
Bank deposits maturing after three months		**170,587**	56,928
Cash and cash equivalents		**683,672**	1,211,892
Non-current asset held for sale		**5,606**	–
Total current assets		**4,474,281**	4,645,753
Total assets		**9,778,321**	10,256,367

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 30 JUNE 2019

	Note	**30 June 2019 Unaudited HK$'000**	31 December 2018 Audited HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**664,044**	664,044
Other reserves	12	**131,992**	125,241
Retained earnings		**5,293,613**	5,393,453
		6,089,649	6,182,738
Non-controlling interests		**144,368**	124,293
Total equity		**6,234,017**	6,307,031
LIABILITIES			
Non-current liabilities			
Borrowings	13	**2,544,745**	3,016,923
Lease liabilities		**46,684**	–
Deferred income tax liabilities		**137,589**	141,560
Total non-current liabilities		**2,729,018**	3,158,483
Current liabilities			
Trade and other payables and accruals	14	**743,139**	740,081
Current income tax liabilities		**20,960**	23,390
Borrowings	13	**19,509**	27,382
Lease liabilities		**31,678**	–
Total current liabilities		**815,286**	790,853
Total liabilities		**3,544,304**	3,949,336
Total equity and liabilities		**9,778,321**	10,256,367

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Independent review

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019 has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). PricewaterhouseCoopers has issued a qualified conclusion on the interim financial information for the six months ended 30 June 2019. Please refer to "Extract of review report" on pages 52 to 54 of this announcement for more details. The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019 has also been reviewed by the Audit Committee of the Company.

2. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The financial information relating to the year ended 31 December 2018 that is included in the condensed consolidated financial information for the six months ended 30 June 2019 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was qualified; contained a statement under sections 407(2) and (3) of the Hong Kong Companies Ordinance; but did not include a reference to any matters to which the auditor drew attention by way of emphasis.

Except as described below, the accounting policies applied and methods of computation used in the preparation of these interim accounts are consistent with those used in the 2018 annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

2. **Basis of preparation and accounting policies** (continued)

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting HKFRS 16 "Leases".

The impact of the adoption of HKFRS 16 from 1 January 2019 resulted in changes in accounting policies. The new accounting policies that have been applied from 1 January 2019 are set out in Note 2a(iv). The other standards effective for the financial year ending 31 December 2019 do not have a material impact on the Group.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the year ended 31 December 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognised in the opening balance as at 1 January 2019 in the statement of financial position.

(i) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.5%.

The reconciliation of the operating lease commitments as at 31 December 2018 and the opening balance of lease liability as at 1 January 2019 is as follows:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	104,237
Discounted using the lessee's incremental borrowing rate as of the date of initial application	(4,251)
Less: short term leases recognised on a straight-line basis as expense	(16,408)
Less: low value leases recognised on a straight-line basis as expense	(824)
Lease liability recognised as at 1 January 2019	82,754
Of which are:	
Current lease liabilities	26,821
Non-current lease liabilities	55,933
	82,754

2. **Basis of preparation and accounting policies** (continued)

(a) **New and amended standards adopted by the Group** (continued)

(i) Adjustments recognised on adoption of HKFRS 16 (continued)

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 HK$'000	1 January 2019 HK$'000
Properties	**71,666**	74,380
Equipment	**6,982**	8,374
	78,648	82,754

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

– right-of-use assets – increased by HK$82,754,000;

– current lease liabilities – increased by HK$26,821,000; and

– non-current lease liabilities – increased by HK$55,933,000.

Land use right and leasehold land (classified under property, plant and equipment) of HK$47,955,000 (1 January 2019: HK$49,486,000) and HK$126,753,000 (1 January 2019: HK$133,722,000) as at 30 June 2019, respectively, are regarded as right-of-use assets under the scope of HKFRS 16 as the Group has the right to control the use of land throughout the entire lease term. No lease liabilities were recognised as the balance was prepaid.

2. **Basis of preparation and accounting policies** (continued)

(a) **New and amended standards adopted by the Group** (continued)

(ii) Impact on segment disclosures and earnings per share

Decrease in reportable segment profit and increase in additions to non-current assets for the period ended 30 June 2019 as a result of the change in accounting policy are as follows:

	Decrease in reportable segment profit HK$'000	**Increase in additions to non-current assets** HK$'000
Hong Kong TV broadcasting	(492)	4,518
myTV SUPER	(8)	2,974
Big Big Channel business	(4)	2,814
Programme licensing and distribution	(11)	–
Overseas pay TV and TVB Anywhere	(5)	–
Corporate support	(114)	270
	(634)	10,576

There is no material change in earnings per share for the six months ended 30 June 2019 as a result of the adoption of HKFRS 16.

(iii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

2. **Basis of preparation and accounting policies** (continued)

(a) **New and amended standards adopted by the Group** (continued)

(iv) HKFRS 16 – Accounting policies applied from 1 January 2019

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivables.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration cost.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

2. Basis of preparation and accounting policies (continued)

(b) Impact of standards issued but not yet applied by the Group

The Group has not early adopted new or revised standards, amendments to standards and interpretations that have been issued but are not yet effective for the accounting period ending 31 December 2019. The Group is in the process of making an assessment of the likely impact of these new or revised standards, amendments to standards and interpretations to the Group's results and financial position in the period of initial application.

3. Segment information

The Group Chief Executive Officer is the Group's chief operating decision maker. The Group reports its operating segments based on the internal reports reviewed by the Group Chief Executive Officer for the purposes of allocating resources to the segments and assessing their performance.

The segments are managed separately according to the nature of products and services provided. Segment performance is evaluated based on operating results which in certain respects, as explained in the table below, is measured differently from the profit before income tax in the condensed consolidated financial information.

Revenue comprises income from advertisers net of agency deductions, licensing income, subscription income, co-production income, as well as other income, including e-commerce income, digital marketing and event income, music entertainment income, management fee income, movie income, facility rental income and other service fee income.

The Group's inter-segment transactions mainly consist of licensing of programmes and film rights and provision of services. Licensing of programmes and film rights were entered into at similar terms as that contracted with third parties. The services provided are charged on a cost plus basis or at similar terms as that contracted with third parties.

3. **Segment information** (continued)

An analysis of the Group's revenue and results for the period by operating segment is as follows:

	Six months ended 30 June																
	Hong Kong TV broadcasting		myTV SUPER		Big Big Channel business		Programme licensing and distribution		Overseas pay TV and TVB Anywhere		Other activities^		Corporate support^		Elimination		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue																		
Timing of revenue recognition:																		
At a point in time	**3,509**	1,920	**532**	1,085	**5,900**	2,829	**143,323**	64,889	**44**	34	**–**	5,071	**–**	–	**–**	–	**153,308**	75,828
Over time	**1,224,215**	1,433,168	**225,640**	181,259	**55,050**	24,386	**237,929**	420,299	**67,170**	73,045	**2,024**	22,600	**–**	–	**–**	–	**1,812,028**	2,154,757
External customers	**1,227,724**	1,435,088	**226,172**	182,344	**60,950**	27,215	**381,252**	485,188	**67,214**	73,079	**2,024**	27,671	**–**	–	**–**	–	**1,965,336**	2,230,585
Inter-segment	**22,340**	18,214	**12,184**	21,550	**25,385**	3,799	**31,509**	30,821	**–**	–	**409**	4,591	**50,602**	40,565	**(142,429)**	(119,540)	**–**	–
Total	**1,250,064**	1,453,302	**238,356**	203,894	**86,335**	31,014	**412,761**	516,009	**67,214**	73,079	**2,433**	32,262	**50,602**	40,565	**(142,429)**	(119,540)	**1,965,336**	2,230,585
Reportable segment profit before the following items	**78,158**	101,979	**31,759**	85	**13,740**	(19,985)	**277,501**	267,180	**(7,764)**	(1,488)	**(2,161)**	(4,619)	**(74,955)**	(75,494)	**–**	–	**316,278**	267,658
Impairment loss on bond securities at amortised cost	**(20,000)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(20,000)**	–
Gain on disposal of investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	27,058	**–**	–	**–**	–	**–**	27,058
Reportable segment profit	**58,158**	101,979	**31,759**	85	**13,740**	(19,985)	**277,501**	267,180	**(7,764)**	(1,488)	**(2,161)**	22,439	**(74,955)**	(75,494)	**–**	–	**296,278**	294,716
Interest income#	**74,665**	83,820	**83**	9	**4**	5	**6,400**	1,475	**62**	31	**285**	769	**–**	–	**(19,759)**	(7,082)	**61,740**	79,027
Finance costs	**(1,008)**	–	**(16)**	–	**(9)**	–	**(34)**	–	**(10)**	–	**–**	–	**(75,534)**	(75,637)	**19,759**	7,082	**(56,852)**	(68,555)
Depreciation and amortisation	**(161,574)**	(146,137)	**(46,836)**	(45,386)	**(2,998)**	(2,463)	**(6,223)**	(6,321)	**(3,641)**	(2,631)	**(2,318)**	(2,961)	**(11,232)**	–	**–**	–	**(234,822)**	(205,899)
Additions to non-current assets*	**90,053**	132,486	**24,376**	65,731	**8,180**	9,933	**1,235**	9,072	**1,115**	4,514	**19**	3,940	**49,961**	–	**–**	–	**174,939**	225,676

* Non-current assets comprise property, plant and equipment, right-of-use assets, investment properties, land use rights and intangible assets (including prepayments related to capital expenditure, if any).

\# excluding interest income from a joint venture.

^ During the year ended 31 December 2018 and for the period ended 30 June 2019, the Group has presented the results related to the provision of new media platforms development and IT support services to the Group from "Other activities" to "Corporate support" for a better reflection of resources allocation in the Group. The Directors of the Company consider that changes in the reportable segments would be useful to users of the condensed consolidated financial information. As such, the comparative figures have been adjusted to conform with the reclassification.

3. **Segment information** (continued)

A reconciliation of reportable segment profit to profit before income tax is provided as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Reportable segment profit	**296,278**	294,716
Interest income from a joint venture	**34,840**	31,101
Share of losses of joint ventures	**(52,705)**	(49,589)
Share of profits of associates	**1,186**	139
Profit before income tax	**279,599**	276,367

An analysis of the Group's revenue from external customers for the period by geographical location is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Hong Kong	**1,505,343**	1,476,401
Mainland China	**231,168**	404,250
Malaysia and Singapore	**125,468**	234,858
USA and Canada	**57,332**	63,262
Vietnam	**13,890**	12,817
Australia	**5,306**	15,439
Europe	**4,211**	4,968
Other territories	**22,618**	18,590
	1,965,336	2,230,585

4. Profit before income tax

The following items have been charged/(credited) to the profit before income tax during the period:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Depreciation	**222,924**	200,489
Amortisation of land use rights	**1,515**	1,595
Amortisation of intangible assets	**10,383**	3,815
Cost of programmes and film rights	**675,524**	897,099
Cost of other stocks	**5,524**	13,297
Net exchange (gains)/losses	**(3,720)**	902

5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the territories in which the Group operates. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Current income tax:		
− Hong Kong	**20,374**	19,305
− Overseas	**20,683**	21,381
− Under provisions in prior periods	**2,684**	286
	43,741	40,972
Deferred income tax:		
− Origination and reversal of temporary differences	**2,724**	7,959
	46,465	48,931

6. **Earnings per share**

The earnings per share is calculated based on the Group's profit attributable to equity holders of the Company of HK$212,634,000 (2018: HK$201,341,000) and 438,000,000 ordinary shares in issue throughout the six months ended 30 June 2019 and 2018.

During the six months ended 30 June 2019 and 2018, no fully diluted earnings per share was presented as the Company did not have any potentially dilutive ordinary shares as the exercise price of the share options was higher than the average market price of the Company's shares.

7. **Dividends**

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interim dividend, declared after the end of the reporting period, of HK$0.30 (2018: HK$0.30) per ordinary share	**131,400**	131,400

A final dividend of HK$0.70 per ordinary share for the year ended 31 December 2018 amounting to HK$306,600,000 was approved by shareholders on 22 May 2019 and paid on 11 June 2019.

8. Interests in joint ventures

	30 June 2019 HK$'000	31 December 2018 HK$'000
Non-current		
Investment costs	**272,772**	273,394
Less: accumulated share of losses	**(205,659)**	(153,506)
	67,113	119,888
Funds advanced to joint ventures	**29,743**	29,755
Loan to a joint venture (note)	**520,900**	522,100
Interest receivable from a joint venture (note)	**62,508**	62,652
	680,264	734,395
Less: share of losses in excess of investment costs	**(27,160)**	(27,153)
	653,104	707,242
Current		
Interest receivable from a joint venture	**65,022**	30,375
	718,126	737,617

Note:

In July 2017, the Group entered into the agreement with Imagine Holding Company LLC in relation to the formation of a joint venture company, namely Imagine Tiger Television, LLC ("ITT"), on a 50:50 basis between both parties. The Group has contributed to the capital of ITT in an amount of US$33,333,333 as to 50% of the equity interests in ITT and has provided a loan to ITT in an amount of US$66,666,667 in the form of the promissory note. The promissory note is unsecured and bears an interest rate of 12% per annum and will mature in July 2032.

9. Financial assets at amortised cost

	30 June 2019 HK$'000	31 December 2018 HK$'000
Non-current		
Bond securities at amortised cost:		
Unlisted	**247,741**	447,936
Listed in Hong Kong	**764,792**	814,280
Listed in other countries	**1,172,122**	1,185,237
Less: provision for impairment loss on bond securities (notes (b) and (c))	**(206,125)**	(206,125)
	1,978,530	2,241,328
Current		
Bond securities at amortised cost:		
Unlisted	**200,000**	–
Listed in Hong Kong	**62,577**	15,652
Listed in other countries	**8,035**	–
Less: provision for impairment loss on bond securities (note (d))	**(20,000)**	–
	250,612	15,652
	2,229,142	2,256,980

Notes:

(a) The bond securities portfolio (excluding SMI Holdings Group Limited ("SMI") fixed coupon bonds and China Energy Reserve and Chemicals Group ("CERC") Bonds as detailed in Note 9(b) and Note 9(c) respectively) carry a weighted average yield to maturity of 4.7% (31 December 2018: 5.7%) per annum and the maturity dates are ranging from 28 July 2019 to 1 October 2027. The largest fixed income securities from the same issuer within the portfolio, which is made up by a total of 43 (31 December 2018: 43) issuers of fixed income securities, represented approximately 2.8% (31 December 2018: 2.7%) of the total assets of the Group as at 30 June 2019. They are denominated in Hong Kong dollars and US dollars. The interest received during the period from the bond securities at amortised cost amounted to HK$51,523,000 (2018: HK$40,947,000).

The carrying amounts of the financial assets at amortised cost approximate their fair values. The maximum exposure to credit risk is the carrying values of the financial assets at amortised cost.

9. **Financial assets at amortised cost** (continued)

Notes:

(b) SMI Fixed Coupon Bonds

On 23 April 2018, the Group subscribed a US$23,000,000 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") issued by SMI. Trading in SMI's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 3 September 2018. The suspension of trading of SMI's shares for a period of more than ten consecutive trading days has triggered an event of default for Fixed Coupon Bonds in accordance with the subscription agreement. SMI has made announcements that since its trading suspension, SMI and certain of its subsidiaries have defaulted in certain borrowings. Pursuant to SMI's announcement dated 12 March 2019, it has commenced negotiation with the creditors concerning the debt restructuring process, including prospective conversion of outstanding debts into equity, and raising of capital by prospective subscription of new shares of SMI. However, no agreement or material terms in relation to the above arrangements have been entered into or agreed between the Group and its lenders or creditors.

In view of the above background, management performed an impairment assessment of the Fixed Coupon Bonds using a lifetime expected credit loss model, which estimated the eventual shortfall of cash recoverable from the Fixed Coupon Bonds in 2018. Based on management's impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180,125,000 was recognised for the year ended 31 December 2018. As SMI has not yet released its audited results for the year ended 31 December 2018 nor the unaudited results for the six months ended 30 June 2019 and has not responded to the list of information requested by the Group's adviser, the impairment assessment for the period ended 30 June 2019 continued to use key inputs based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors in view of SMI's recent announcements up to the date of the announcement. The management considered the full impairment of the Fixed Coupon Bonds was adequate but not excessive at 30 June 2019.

9. **Financial assets at amortised cost** (continued)

Notes:

(c) CERC Bonds

The Group had purchased the CERC Bonds totalling US$12 million nominal amount (2018 Bond US$6 million and 2019 Bond US$6 million). On 11 May 2018, CERC had defaulted the principal payment of the 2018 CERC Bond due in May 2018 and as a result, this triggered a cross default for the 2019 CERC Bond. CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. According to CERC's announcement dated 25 May 2018, CERC plans to divest certain of its assets in order to resolve its current cash flow difficulties. Management has reviewed a report ("Report") dated 17 August 2018 and prepared by FTI Consulting (Hong Kong) Limited, the financial adviser appointed by CERC, in relation to, among other things, a review of the financial condition of CERC. CERC has prepared a plan for the repayment of the principal and the interest over an eight-year period. On 24 December 2018, the Group had received coupon interests from CERC Bonds. Based on the review of the Report and the receipt of the bond interests, management believes that CERC has both the intention and ability to settle the outstanding balances in an extended schedule. The Group has approached the impairment assessment by way of discounting of the cashflow over an eight-year period and has adopted a discount rate of 14% as the basis for calculation of the net present value of the CERC Bonds. On this basis, an impairment loss of HK$26,000,000 was made during the year ended 31 December 2018.

During the period ended 30 June 2019, CERC proposed that all interest payments on the outstanding bonds be suspended pending further notice relating to a restructuring proposal. The Group is closely monitoring the situation and has communicated with the trustee in relation to the recovery of the CERC Bonds. As CERC has informed all bondholders that an updated proposal is soon to be released and there has not been substantial change in the information released by CERC, no further impairment loss was made during the period.

(d) Other bonds

Other than SMI's Fixed Coupon Bonds and CERC Bonds, a provision for impairment loss for other bond securities at amortised cost of HK$20,000,000 was made during the Period after review of the expected credit loss of the bond securities portfolio.

10. Financial assets at fair value through profit or loss

	30 June 2019 HK$'000	31 December 2018 HK$'000
Beginning of the period/year	**330,015**	–
Subscription of convertible bonds	**–**	651,509
Change in fair value	**–**	(320,000)
Exchange differences	**–**	(1,494)
End of the period/year	**330,015**	330,015

In addition to the Fixed Coupon Bonds described in Note 9(b), the Group subscribed a US$83,000,000 7.5% secured redeemable convertible bonds due 2020 (extendable to 2021 by mutual agreement) ("Convertible Bonds") issued by SMI on 7 May 2018. The Company may exercise its right to convert all or any part of the principal amount of the Convertible Bonds into new shares of SMI at any time during the period from and including the date falling six months from 7 May 2018 up to the close of the business on the maturity date of the Convertible Bonds at the initial conversion price of HK$3.85 per conversion share. None of them was converted up to 30 June 2019.

Under the subscription agreement of the Convertible Bonds and a related share charge agreement with SMI dated 7 May 2018, the Convertible Bonds are secured by way of a priority charge against 100% of the issued share capital of SMI International Cinemas Limited ("SMI International", an indirect wholly owned subsidiary of SMI) (the "Collateral"). SMI International is an investment holding company that owns 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"). Chengdu Runyun and its subsidiaries (together, the "Chengdu Runyun group") operates SMI's principal business as cinema operators in a number of cities in the Mainland China.

As at 31 December 2018, management performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the assessment performed on the Fixed Coupon Bonds as described in Note 9(b) and the suspension of trading of SMI's shares which triggered an event of default for Convertible Bonds, management considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, management has determined to perform a fair value assessment on the Collateral. Management has engaged an independent firm of professionally qualified valuers to perform a valuation of the Chengdu Runyun group using the discounted cash flow model under the income approach. Based on the fair value assessment, the Group recognised a fair value loss of HK$320,000,000 on the Convertible Bonds for the year ended 31 December 2018.

10. Financial assets at fair value through profit or loss (continued)

During the period ended 30 June 2019, as announced by the Company on 14 May 2019, it was discovered through searches in the PRC that SMI International appeared to have pledged part or all of its 41.34% equity interest in Chengdu Runyun to 浙江中泰創展企業管理有限公司 in August 2018 for RMB500,000,000; and 深圳星美聖典文化傳媒集團有限公司, which holds another 43% equity interest in Chengdu Runyun, appeared to have pledged part or all of its equity interest in Chengdu Runyun to 上海東祺投資管理有限公司 for RMB648,000,000 in June 2018 (together the "PRC Share Pledges"). The PRC Share Pledges were given without the knowledge or consent of the Company and SMI International's pledge may constitute a breach of the Share Charge given by Campell Hall Limited. Upon request by the legal adviser of the Company, SMI has confirmed the SMI International's pledge but failed to provide information in respect of the PRC Share Pledges and the sum secured.

It was noted that the PRC Share Pledges and the loan that SMI International's pledge secures may negatively impact the value of the security held by the Company. Pursuant to the PRC legal advice obtained by Mayer Brown from Junhe, a PRC law firm, the PRC Share Pledges are legal and valid. In addition, Ernst & Young, the financial adviser discovered in public searches that 19 direct subsidiaries of Chengdu Runyun have pledged their shares to third parties for financing purposes. To date, only seven out of 19 charge documents are available for download from the Administration for Industry and Commerce ("AIC") in the PRC. The other charge documents that are unavailable for download may be due to the delay in the update of AIC archives.

On 3 July 2019, the Company had served statutory demands dated 2 July 2019 to SMI in relation to the two SMI Bonds. No response has been received from SMI, despite a 30-day period had elapsed since the service of the statutory demands. On 12 August 2019, the Company applied to the High Court of Hong Kong to be the substituting petitioner for a winding up petition filed by HSBC, the original petitioner, which confirmed that it had reached a settlement with SMI and would no longer proceed with the winding-up petition against SMI. The Court directed that the hearing for the Company's claim will be scheduled on a date not earlier than 12 weeks from 12 August 2019, i.e. on or after 4 November 2019. The Company notes that Haitong has also sought to act as the supporting creditor and to substitute as the petitioning creditor should the Company no longer proceed with the winding-up petition.

The fair value assessment of the Collateral as at 30 June 2019 is determined based on a recovery analysis on the underlying business of Collateral under market approach, with reference to the valuation performed by an another independent firm of professionally qualified valuers. Estimated borrowings and operating liabilities of SMI Group based on information obtained were also incorporated into the model to arrive at the fair value of the Collateral. Due to the fact that there were limited operating data updated by SMI to conduct a valuation under the income approach, the valuer advised the basis of valuation be changed to a market approach during the period, which assumes what a willing buyer would consider as an offer price if SMI continues as a going concern for trade sales. The valuation adopted key inputs based on the budgeted revenue of the Chengdu Runyun group with market condition discount based on external research, as well as other market assumptions such as discount on budgeted revenue based on market condition, the earnings before interest, taxes, depreciation and amortisation ("EBITDA") margin of the industry, enterprise value ("EV")/EBITDA multiples of comparable companies in the market and the marketability discount. The following table lists the inputs to the model used. Based on the fair value assessment under market approach, no fair value adjustments has been made on the Convertible Bonds for the six months ended 30 June 2019.

Market condition discount on budgeted revenue:	16%
Industry EBITDA margin:	20%
EV/EBITDA multiple:	12.8
Discount rate on lack of marketability on equity value:	30–40%

11. Trade and other receivables, prepayments and deposits

	30 June 2019 HK$'000	31 December 2018 HK$'000
Non-current		
Prepayments related to capital expenditure	**66,281**	83,982
Current		
Trade receivables from:		
Associates	**1,377**	1,703
Third parties (note)	**1,582,078**	1,895,348
	1,583,455	1,897,051
Less: provision for impairment loss on receivables from:		
Associates	**–**	(1,458)
Third parties	**(79,601)**	(183,363)
	1,503,854	1,712,230
Other receivables, prepayments and deposits	**561,951**	571,587
Contract acquisition and fulfilment costs	**12,993**	13,633
	2,078,798	2,297,450
	2,145,079	2,381,432

Note:

The Group operates a controlled credit policy and allows an average credit period of forty to sixty days to the majority of the Group's customers who satisfy the credit evaluation of the Group. Cash on delivery, advance payments or bank guarantees are required from other customers of the Group.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

11. **Trade and other receivables, prepayments and deposits** (continued)

At 30 June 2019 and 31 December 2018, the ageing of trade receivables, net of provision for impairment, based on invoice date including trading balances due from associates was as follows:

	30 June 2019 HK$'000	31 December 2018 HK$'000
Current	**574,846**	503,776
1-2 months	**253,387**	362,111
2-3 months	**169,465**	193,437
3-4 months	**121,244**	142,955
4-5 months	**56,852**	106,108
Over 5 months	**328,060**	403,843
	1,503,854	1,712,230

12. **Other reserves**

	General reserve HK$'000	**Capital reserve** HK$'000	**Legal reserve** HK$'000	**Share-based payment reserve** HK$'000	**Financial assets at FVOCI reserve** HK$'000	**Translation reserve** HK$'000	**Total** HK$'000
Balance at 1 January 2018	70,000	(3,741)	104,011	–	–	(21,993)	148,277
Transferred from retained earnings	–	–	8,182	–	–	–	8,182
Currency translation differences:							
– Group	–	–	–	–	–	(10,211)	(10,211)
– Joint ventures	–	–	–	–	–	18	18
Share of other comprehensive loss of an associate	–	–	–	–	–	(1,405)	(1,405)
Share-based payments	–	–	–	9,086	–	–	9,086
Balance at 30 June 2018	70,000	(3,741)	112,193	9,086	–	(33,591)	153,947
Balance at 1 January 2019	70,000	(20,699)	112,193	24,125	(7,661)	(52,717)	125,241
Transferred from retained earnings	–	–	5,874	–	–	–	5,874
Currency translation differences:							
– Group	–	–	–	–	–	(7,668)	(7,668)
– Joint ventures	–	–	–	–	–	545	545
Share of other comprehensive loss of an associate	–	–	–	–	13	(204)	(191)
Share-based payments	–	–	–	8,191	–	–	8,191
Balance at 30 June 2019	**70,000**	**(20,699)**	**118,067**	**32,316**	**(7,648)**	**(60,044)**	**131,992**

13. Borrowings

	30 June 2019 HK$'000	31 December 2018 HK$'000
Non-current		
Notes, unsecured (note)	**2,544,745**	3,016,923
Current		
Bank overdraft	**19,509**	27,382
	2,564,254	3,044,305

Note:

On 11 October 2016, the Group issued US$500,000,000 3.625% five-year notes due 2021 ("Notes"). As at 30 June 2019, the Company purchased the Notes issued by TVB Finance Limited with a total nominal amount of US$172,210,000 (31 December 2018: US$112,210,000).

14. Trade and other payables and accruals

	30 June 2019 HK$'000	31 December 2018 HK$'000
Trade payables to:		
Associates	**–**	9,087
Third parties	**133,288**	103,215
	133,288	112,302
Contract liabilities	**210,950**	158,663
Provision for employee benefits and other expenses	**105,929**	143,633
Accruals and other payables	**292,972**	325,483
	743,139	740,081

14. Trade and other payables and accruals (continued)

Note:

At 30 June 2019 and 31 December 2018, the ageing of trade payables based on invoice date including balances due to associates was as follows:

	30 June 2019 HK$'000	31 December 2018 HK$'000
Current	**90,099**	81,501
1-2 months	**33,671**	22,847
2-3 months	**5,519**	4,039
3-4 months	**439**	965
4-5 months	**2,349**	85
Over 5 months	**1,211**	2,865
	133,288	112,302

15. Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation. These reclassifications have no impact on the Group's total equity as at 30 June 2019, 31 December 2018 and 30 June 2018, or on the Group's profit for the six months ended 30 June 2019 and 2018.

REVIEW OF OPERATIONS

OVERVIEW

Our efforts to transform from old economy and conventional business models to digital services continued. myTV SUPER over-the-top ("OTT") platform has accumulated over 7.7 million registered users, and upheld its prime position as the leading OTT service operator and the second most watched platform in Hong Kong. This business has started to demonstrate scale and contribute to the Group's profits.

To sustain growth, a premium channel bundle myTV Gold is now on offer, in addition to free and paid services, thereby enhancing the comprehensiveness of the channel packages under myTV SUPER. With myTV Gold, we are targeting growth in subscribers from the traditional pay TV market which we exited in 2017. With the enlarged user base and steadily increasing consumption, revenue of myTV SUPER delivered a promising 24% growth year-on-year.

In 2018, we started to explore e-commerce by using Big Big Shop to showcase products for sale using TVB's unique position of being able to promote, as well to execute transactions. We are on course to develop a sustainable business model of "Showing on TV, and Selling in Big Big Shop", further solidifying TVB's media power from terrestrial to online.

Advertising business under Hong Kong TV broadcasting recorded a mild decline of 1% from HK$1,151 million to HK$1,136 million. Thanks to the sales growth from digital platforms, total revenue from Hong Kong grew by 2% from HK$1,476 million to HK$1,505 million. We are continuing to use drama as the well-proven genre for the prime time evening hours on Jade but had carefully increased a number of acquired drama titles to complement the local productions and help manage costs effectively.

Co-production of drama serials with Mainland's online players was on hold due to certain administrative policies of the Mainland authorities. This resulted in a temporary deferral of co-production of drama schedule during the Period. Through careful planning and negotiation, co-production projects have resumed in the second half of the year.

On international distribution business, renewal of supply agreements with our distribution to platform partners has, in certain cases, resulted in lower fees and a change in business model from exclusive distribution to omni-channel distribution. To mitigate the negative impact to revenue, our business focus is on TVB Anywhere OTT service which still has plenty of room for growth. In April 2019, we launched a global video-streaming service, TVB Anywhere+ app for mobile devices, which offers a large selection of TVB original content and acquired drama series to both Chinese speaking and non-Chinese speaking audiences.

HONG KONG TV BROADCASTING

For the period ended 30 June	2019 HK$ million	2018 HK$ million	Year-on-year change
Segment revenue (external)	**1,228**	1,435	-14%
Inter-segment revenue	**22**	18	23%
Less: costs	**(1,192)**	(1,351)	-12%
Segment profit	**58**	102	-43%

Hong Kong TV broadcasting continued to be the largest revenue contributor, accounting for 62% of the Group's revenue. Segment revenue from external customers decreased by HK$207 million or 14% year-on-year from HK$1,435 million to HK$1,228 million. Absence of income generated via co-production of drama serials during the Period was the main cause for the under-performance of this segment as HK$194 million of revenue was earned in first half of 2018[1].

TV ADVERTISING

For the Period, advertising revenue from Hong Kong TV broadcasting has stabilised at HK$1,136 million, representing a mild drop of 1%. Demand for advertising airtime has in the past tended to be slightly weaker in the odd years when there are less event driven advertising campaigns, such as those associated with major sports events like the Olympic Games or the World Cup. However, banks, insurance companies and Mandatory Provident Fund ("MPF") operators increased spending on airtime, which was driven by the introduction of virtual banks in Hong Kong and the Government's new tax deduction initiatives in relation to the Voluntary Health Insurance Scheme, Annuity Premiums and the MPF Voluntary Contributions.

Key spending advertiser categories during the Period belonged mainly to the fast moving consumer goods sector, which includes for example, personal care and beauty; loans and mortgages; milk powder (infant formula and adult); insurance companies, pharmaceutical and health wellness supplements, etc.

As part of the regular sales campaign, we are using innovative advertising packages to stimulate demands and to cater for advertisers whether big or small. To attract new clients to advertising on our terrestrial channels, we have developed a special small-medium size enterprises ("SMEs") package to provide a one-stop hassle free solution. We are also promoting the Amazing Summer campaign to coincide with variety programmes associated with the summer months.

[1] Please refer to further discussions included under "Mainland China operations".

Our business is inevitably affected by the mixed performance of the global economy and the trade dispute between China and the USA. As we entered into the second half of the year, we are mindful of the current local political unrest and their long term implications on our advertising business. As we understand, most, if not all, of our clients are taking a very cautious approach in strategising their advertising campaigns in the second half of the year. The Company is endeavouring to mitigate impact by widening advertising client base, aggressive business development in the Mainland and overseas countries, and continuing enhancement of cost efficiencies.

TERRESTRIAL TV CHANNELS

We continued to use drama as the well-proven genre for the prime time evening hours but carefully increased a number of acquired titles to complement the local productions. This careful compilation of programmes offers viewers a choice, as well as a way for us to optimise programme costs.

JADE CHANNEL

As the most popular channel in Hong Kong, Jade maintains a sizeable and steady prime time ratings. *Scoop*, one of its early prime time infotainment programme, which generates consistent rating performance has integrated product placements into programmes since relaxation of the regulations governing indirect advertising. Since March 2019, this popular programme is being aired daily to cultivate loyal viewership.

Lo And Behold, the long-running popular weekday sitcom, is another notable success in early prime time. With its appealing cast, the programme reported an average consolidated TV rating[2] of 27.8 TVRs which represents a significant achievement for a sitcom. The episode featuring the popular Bobby Au Yeung as a guest actor topped the highest rating to date of 32.3 TVRs since the start of the series in 2017. This sitcom offers numerous product sponsorship opportunities.

The Company continues to invest heavily in prime time drama to keep raising content quality. *The Defected*, in collaboration with Tencent Penguin Pictures, was a 30-episode drama story revolving around a policeman who became embroiled in a conspiracy plaguing the high-ranking officials. Jammed with intense action sequences, *The Defected* garnered large followings to record an average consolidated TV rating of 28.8 TVRs. *The Defected* also became the first TVB drama to have licensed to Netflix and dubbed into 19 languages.

Another featured drama, *Big White Duel* was a long-awaited medical drama set in Hong Kong, focusing on politics in the healthcare industry. The drama was featured by the hot social topics relating to healthcare reforms and surgical plots. A promising performance of 28.6 consolidated TVRs was recorded for the series.

[2] Consolidated TV rating is an average rating of a programme summing spectrum rating (in-home and out-of-home), live and as-live viewing on myTV SUPER (STB, App, Web) as well as VOD consumption of that programme within seven-day period after being aired on terrestrial TV. For 2019, the total TV population comprises 6,546,000 viewers, therefore, 1 TVR represents 65,460 viewers (1% of the total TV population). Data source: CSM Media Research & Nielsen (SiteCensus & Out-of-home Study).

Numerous variety programmes were carefully crafted with the purpose of promoting the Big Big Shop. Products and services featured on *Homegrown Flavours (Sr.3)*; *Big Big Bay (Sr.2); Good Cheap Eats (Sr.7)* were selected for online shopping. We hope that by way of cross promotion, we can demonstrate to advertisers the synergistic effects between TV channels and the e-commerce platform.

Popular programmes of Jade are an important source for spin-off content of Big Big Channel, where video clips comprising making-of, funny outtakes and highlights are released to extend the peripheral value of the content. Recent hits included "*Cheat Chat*" and "*Liza Magic*", which comprised amusing spoof scenes extracted from Jade's weekend show *Liza's On Line*, and recorded an aggregate stream views of nearly 10 million on Big Big Channel and other social media sites. Spin-off video clips from programmes such as travelogue *Wishful Living* and sitcom *Lo And Behold* also gained netizen's acclaim.

J2 CHANNEL

Youth remains as J2's target audience. Station-created chic and experiential travelogue is always the signature genre on J2. During the Period, J2 travelogue KOLs engaged well with audience on virtual journeys via *The North Of South America, Korea Dispatch* and *Hipster Tour − Italy*. In particular, *The North Of South America* scored a remarkable average consolidated TV rating of 3.4 TVRs.

TVB NEWS CHANNEL AND NEWS PROGRAMMES

TVB News continues to be the most watched 24-hour news channel both in terms of in-home and out-of-home viewership measurement. Apart from delivering the most up-to-date, accurate news reports, TVB News is committed to enriching audience via its enlightening mini programmes. Recent enchanting examples included *Mobservatory*, a programme where host Leung Wing Mo, the former Assistant Director of Hong Kong Observatory, revealed climate and weather secrets; *Login Greater Bay Area*, which covered the latest reforms and technological developments in the Greater Bay Area; while *Humans of Hong Kong* depicted affection, positive energy and care for the society by way of real life scenarios.

PEARL CHANNEL

Pearl continues to present the world's prestigious event *The Oscars®* to audience in real time. Pearl again was awarded the official broadcaster of prestigious equestrian sport event, *The Masters of Hong Kong 2019*. To better serve the needs of viewers, a new daytime zone has been introduced on weekdays presenting a full line up of infotainment programmes, such as *Belt And Road Initiative*, *A Dream Home Planning* and *40 Years of Reform* in the Putonghua language.

TVB FINANCE & INFORMATION CHANNEL

TVB Finance & Information Channel leads the market as the only 24-hour finance related free TV channel. The channel endeavors to stay ahead and keeps audience abreast of the rapidly changing financial markets. The channel offers a wide range of station-produced programmes covering all-rounded investment contents from property, health, education, career to knowledge, that are well-received by its target audience.

During the Period, the channel offered *2019 ITTF World Tour – Hong Kong Open* and *2018-2019 UCI Track Cycling World Cup Hong Kong*. In May 2019, the channel also brought audience the live match of the *FA Cup 2018/2019 Final of Manchester City vs Watford*, which received an average consolidated TV rating of 3.9 TVRs.

myTV SUPER

For the period ended 30 June	**2019 HK$ million**	2018 HK$ million	**Year-on-year change**
Segment revenue (external)	**226**	182	24%
Inter-segment revenue	**12**	22	-43%
Less: costs	**(206)**	(204)	1%
Segment profit	**32**	0.08	>100%

During the Period, this three-year old engine, myTV SUPER OTT service continued to deliver solid growth in sales, contributing to approximately 12% of the Group's revenue (2018: 8%). Revenue from external customers increased by 24% from HK$182 million to HK$226 million, of which advertising revenue grew by 26% to HK$98 million while subscription revenue increased by 29% to HK$126 million. A significant improvement in segment profit for the Period from marginally breakeven in the last period to HK$32 million was noted.

The business model of myTV SUPER is built on a combination of subscription and advertising. This OTT service leverages on a strong content library which is largely supported by the TVB signature drama programmes built up over the past decades, as well as the most up-to-date self-produced and acquired programmes offered by the terrestrial TV channels. The service is tiered and structured such that a free zone offers the latest programmes for catch-up viewing over a limited period; a basic zone, namely the Alpha pack, offers over 30 linear channels and over 66,000 hours of VOD library for subscription. In April 2019, we geared up our subscriber acquisition strategy to entice new customers. Through working with more international content suppliers, we rolled out a new service tier called myTV Gold offering over 55 channels and more than 68,000 hours of VOD, where premium sports like beIN SPORTS Pack, Sports2World Pack, International Champions Club Pack; international and local movies including myTV SUPER Hollywood Movie Pack, Golden Scene Movie Pack, tvN Movie Pack, Disney and documentaries including Discovery Pack form a key attraction of this top tier package. With a highly competitive price point of HK$148 per month, we are confident that myTV Gold can help convert traditional pay TV subscribers to our OTT platform.

As of 30 June 2019, our OTT subscriber base has further increased to 7,717,195 registered users, among those, 1,274,917 users consume content through set-top boxes ("STB"), 5,406,137 accounts operate via mobile apps and 1,036,141 accounts through portal. This subscription base translates into a penetration rate of 51%[3] households in Hong Kong with our STB, and 83%[4] of TV audience with mobile app. myTV SUPER OTT has successfully built loyalty among a more tech-savvy young affluent group of audience, broadening the demographics of our viewing population.

Premium content has also contributed to the growth in subscriber base and content consumption. The total time spent recorded during the week ended 30 June 2019 reached 20.7 million hours, equivalent to a weekly consumption of 16.5 hours per unique stream viewer. With an all-day-all time average rating of 1.88 TVRs, myTV SUPER maintains as the second most watched platform in Hong Kong after flagship channel, Jade. In addition, programmes viewed during prime time on myTV SUPER generated a rating of 3.22 TVRs during the week ended 30 June 2019.

The increase in content consumption has put us in a favourable position in competing for digital advertising orders. To better serve our advertisers, we are working closely with Google on addressable TV advertising solution and enhance our digital and data-driven proficiencies through targeting technology and increasing emphasis on measurement, attribution and analytics capabilities. This new initiative also enables us to enhance audience viewing experience by minimising repetitive ads and boosting relevancy.

Moreover, our brand lift survey serves as an important tool for measuring consumer perception, which helps advertisers assess the effectiveness of digital advertising campaigns placed on myTV SUPER. The use of advanced targeting and analytics benefit ad sales and facilitate buy-side advertisers and agencies to improve their return-on-investments.

We continued to focus on unlocking the ad-spend potential of SMEs. The mass kickoff and promotions of Ad Booking Manager, a fully automated and user friendly interface platform which enables SMEs to place orders expediently, has successfully recruited new advertisers. With this system, we are well-prepared to expand our SME clientele by deepening our collaboration with HKBN. In March 2019, TVB announced together with HKBN a cross-selling scheme whereby customers of both companies are offered with coupons for spending on digital advertising or telecommunication services.

3 Based on total number of TV households of 2,508,000 in 2019, according to Office of the Communications Authority and CSM Media Research

4 Based on total number of TV audience of 6,546,000 in 2019, according to Office of the Communications Authority and CSM Media Research

BIG BIG CHANNEL BUSINESS

For the period ended 30 June	2019 HK$ million	2018 HK$ million	Year-on-year change
Segment revenue (external)	**61**	27	124%
Inter-segment revenue	**25**	4	>100%
Less: costs	**(72)**	(51)	42%
Segment profit/(loss)	**14**	(20)	Turnaround

Big Big Channel is being transformed into a new business segment comprising social media advertising, music publishing, e-commerce and events management. This segment serves to monetise, both online and offline, TVB's extensive content creation capability and marketing power of the long-established terrestrial TV channels.

During the Period, Big Big Channel business generated revenue from external customers which totalled HK$61 million (2018: HK$27 million), an increase of 124% year-on-year. The growth was mainly fueled by events management, e-commerce, social media advertising and music streaming service. The promising growth in revenue has largely contributed to the segment's turnaround, recording an overall segment profit of HK$14 million for the Period (2018: a loss of HK$20 million).

SOCIAL MEDIA ADVERTISING AND MUSIC PUBLISHING

We inaugurated our own online social media platform, Big Big Channel in July 2017. With the growing demand for short-form video content, we leverage the strong affinity between audience and artistes/KOLs to cultivate viewership among the young demographics and monetise through content-based advertising using TVB's strong brand and programming capabilities. During the Period, we created more exclusive video clips for Big Big Channels, which included streaming of live events and artiste chats, releasing making-of videos, funny bloopers, behind-the-scene tidbits on major social media platforms. The effective use of promoting TVB shows online extends the peripheral value of content and generates positive feedback from product sponsors.

Big Big Channel exhibits strong ability to build viewership across major social media platforms. As of 30 June 2019, Big Big Channel app itself, together with TVB's social media footprints on Facebook, YouTube, Instagram, Twitter, Tencent Weibo, Sina Weibo, Youku and TouTiao, attracted followers aggregating over 13.2 million (December 2018: 12.2 million).

Since March 2019, Big Big Channel has been working with HKBN on a cross-selling scheme by giving out coupons to customers of both companies for spending on digital marketing solutions or telecommunication services. These incentives provide HKBN enterprise solutions customers a great opportunity to advertise their products and services by way of Big Big Channel's digital marketing solutions. Meanwhile, customers of Big Big Channel can enjoy HKBN's telecommunications packages at a preferential rate.

The Voice Entertainment Group Limited ("VEG") is the music and entertainment label of TVB. This record label produces, publishes and licenses musical works, distributes sound recordings, as well as organising live concerts and managing artistes. During the Period, our music entertainment business registered notable growth in streaming income from hit singles.

During 2019, VEG has entered into an agreement with a distribution company in Taiwan for physical and digital distribution in territories outside Hong Kong. Pakho Chau's album <All About Love> started distribution in Taiwan and Malaysia in January 2019. Hana Kuk's album <Last Forever> was launched in Taiwan in February 2019 and licensed for local manufacturing in Malaysia in April 2019. Hana became one of the few singers in recent years to achieve a breakthrough beyond Hong Kong.

BIG BIG SHOP

Big Big Shop is the e-commerce arm of TVB, inaugurated in July 2018. Synergising with TVB's effective promotional power, this commission-based platform adopts a "Showing on TV, Selling in Big Big Shop" model to capture consumers' impulsive desire to buy online by marketing heavily advertiser-sponsored products on TVB's prime time shows. With relaxation of the regulations in governing indirect advertising for local programmes, we are integrating more stories featuring sponsored products in the daily infotainment programme *Scoop*. Echoing with advertisements, these in-programme messages resonate with audience, and help accelerate the sales on Big Big Shop. Other celebrity-anchored programmes that adopt this sales format included *Homegrown Flavours, The Ahistoric Grandpa Cooking Show, Good Cheap Eats, 2019 Fortune Show, Big City Shop* and *Big Big Bay*. We also worked with many reputable vendors during major festivals to promote and sell seasonal premium curated products on our platforms. The promising sales growth from Big Big Shop gave us much confidence to scale up our business by offering a broader range of advertiser-sponsored products.

Recently, Circle K Convenience Stores (HK) ("Circle K"), which owns more than 300 outlets in Hong Kong has become our fulfilment service partner. This new "click-and-collect" partnership is expected to provide an added convenience for customers, which enables online ordering on Big Big Shop and collection of goods at any Circle K outlet across town.

Going forward, Big Big Shop will continue to expand its customer base and work closely with new and existing business partners to further exploit e-commerce potentials for the Hong Kong market as well as neighboring cities in the Greater Bay Area leveraging on the influence of our flagship channel, Jade.

EVENTS MANAGEMENT

To address the changing market evolution between online and offline, we have strategically extended beyond traditional TV commercials to include events management service, by utilising TVB's power to organise events leveraging our talent and stage management resources, and further promote these events online via our own platforms and other social media sites.

We have witnessed a significant growth in business opportunities during the Period. In addition to assisting clients in banking, property management sectors and retailers on one-stop marketing solution, our clientele has been broadened to include government bodies and NGOs (chambers of commerce and business associations). The nature of the events also became more diversified, ranging from product launches, sports events and recreational shows to concerts, industry conferences and e-sports activities.

INTERNATIONAL OPERATIONS
PROGRAMME LICENSING AND DISTRIBUTION

For the period ended 30 June	**2019 HK$ million**	2018 HK$ million	**Year-on-year change**
Segment revenue (external)	**381**	485	-21%
Inter-segment revenue	**32**	31	2%
Less: costs	**(135)**	(249)	-46%
Segment profit	**278**	267	4%

Programme licensing and distribution business, which comprises the distribution of TVB's programmes outside of Hong Kong through telecast and new media licensing, accounted for 19% of the Group's revenue. During the Period, revenue under this business segment decreased by 21% from HK$485 million to HK$381 million. The decrease was mainly due to lower licensing income from Singapore, which was partially offset by higher new media licensing income from Mainland China. As a result of streamlining the international licensing business, costs have been cut considerably to sustain profitability.

The overall traditional licensing business was affected by the sluggish market economy, and eventually led to the decline of revenue in some core markets. The pressure faced is multifaceted and market competition is intensifying. Korea and Mainland China contents have already accumulated a group of followers especially the young generation. In addition, viewing infringing content on-line is convenient and free-of-charge. These result in a change of viewing behavior in many markets including Malaysia and Singapore. Both subscription and advertising revenues of the conventional pay TV operators in these markets are seriously impacted. These operators have to undertake measures to reduce costs, which include lowering content fees.

In Singapore, the programme supply agreement with StarHub Cable Vision Limited ("StarHub") was renewed in August 2018 for two years on a non-exclusive basis. This enables us to approach and work with other pay TV operators and telcos in the market.

In Canada, our programme supply agreement with Fairchild Television Ltd ("Fairchild") was renewed in January 2019 for three years.

We take proactive measures to deal with the challenges in the fast changing market environment. We work with local partners to formulate a more effective strategy to combat piracy. We also produce or co-produce local contents in appropriate markets to create a greater impact, increase attractiveness of our contents and interactions with local audiences.

MAINLAND CHINA OPERATIONS

Operations in Mainland China mainly comprise co-production of dramas and licensing of TVB contents to TV stations and online platforms. Total revenue from Mainland China operations decreased by HK$173 million or 43% year-on-year to HK$231 million. The absence of co-production income of drama serials to online platforms was the principal reason for the decline.

There was no delivery of co-produced drama titles in the first half year, but several new productions are in the pipeline. The absence of co-production revenue during first half of 2019 reflects a major slowdown of all three key Mainland online long video platforms since the third quarter of 2018. The platforms suffered multiple impacts from credit crunch, crack down on excessive talent pay and production fees, an anti-graft campaign that saw major personnel changes and restructuring, a critical reassessment of acceptable subject matters and value orientations of drama projects, and as a result of these factors an industry-wide reduction in co-production and commissioning projects.

In response to the changes in market environment our co-production team has since September 2018 doubled up efforts in assessing the impacts of respective new developments, intensified communications with the new and the ongoing platform personnel, explored new potential co-production partners in the market, and devised specific project plans that could fit into the new market requirements.

The efforts have to date succeeded in securing commitments on four co-production projects: two will go into production in the second half of this year, and two in first half of 2020. There are a further four co-production projects at different stages of discussion currently, adding to new potential revenue for 2020 and beyond.

Aside from co-production business, revenue from licensing to new media platforms increased from HK$175 million to HK$191 million, an increase of 9%. The Group is putting more focus in this sector in response to the fast growing demand, which includes finding new opportunities on cooperation with different OTT platforms.

OVERSEAS PAY TV AND TVB ANYWHERE

For the period ended 30 June	2019 HK$ million	2018 HK$ million	Year-on-year change
Segment revenue (external)	**67**	73	-8%
Inter-segment revenue	**–**	–	N/A
Less: costs	**(75)**	(74)	0.6%
Segment loss	**(8)**	(1)	>100%

This segment revenue comprises income from pay TV platform in the USA and TVB Anywhere OTT business. The subscriber base has continued to grow since the migration from the legacy pay TV operations in the UK and Australia to TVB Anywhere OTT platform. To effectively promote the services, these overseas operations have since been taken over by local distributors which operate on a revenue sharing basis with the Group. For the Period, we saw a decrease in segment revenue from HK$73 million to HK$67 million, which was largely due to this change in business model.

TVB Anywhere service currently covers all overseas territories in multiple languages, except for certain territories including the USA, Mainland China, Taiwan and Malaysia, where we work with country-specific partners. Major markets of the Cantonese version of the service comprise Macau, Australia, Europe, Canada and New Zealand. Amongst these markets, the growth in Macau, in terms of both user number and subscription revenue, is particularly promising due to the distribution agreements entered into with Companhia de Telecomunicações de Macau ("CTM").

In April 2019, we localised versions of TVB Anywhere in Vietnam and Thailand. In Vietnam, we are partnering with Vietnamobile Telecommunications Joint Stock Company to distribute a TVB Anywhere VN app. This new service has recorded substantial growth in registered users since launch. In Thailand, we are partnering with M.V. Television (Thailand) Co., Ltd. to provide a Thai version of TVB Anywhere. A live streaming TVB Drama channel and VOD service in Thai language are being marketed to mainstream audiences and these services have received positive responses. Concurrently, we are in discussion with local mobile operators on distribution partnerships to reach out more users in Thailand.

In April 2019, a global version of TVB Anywhere service was launched for the international market. TVB Anywhere+ provides newly added features and functions including multi-language offerings (with up to six languages currently), multiple screens access, and global access with single sign on. Previously registered users of TVB Anywhere app have been migrated to the new app. In Singapore, this new service is being distributed by StarHub, M1 and MyRepublic. A steady growth in free and premium users has so far been recorded. We anticipate that more local partners will join as distributors of the service. With its international appeal, TVB Anywhere+ global app can facilitate more partnership opportunities with mobile and broadband operators in multiple territories. We foresee that new distribution partnerships will be made later this year in Indonesia and Malaysia.

In addition, TVB Anywhere also offers VOD contents to overseas TVB drama fans through co-operations with global video online platforms such as YouTube and Line TV. Branded TVB Anywhere drama channels under these platforms can reach out to global audience in their preferred languages. The video stream views are contributing advertising revenue to the Group, and helped promote the main service platform TVB Anywhere.

In the USA, our agreement with DISH Network L.L.C. ("DISH") will expire in November 2019. We are discussing with DISH on renewal of the agreement. Concurrently, we are exploring new revenue opportunities with other pay TV and new media platforms on advertising and OTT distribution. We see good revenue growth potential from the OTT side in the USA market. As with other media companies, our revenue streams will be migrating from predominantly pay TV subscription to a mix of pay TV and OTT revenues in future years.

COMBATING PIRACY

Illicit Streaming Devices ("ISDs") and their associated applications continue to impact revenue. Nonetheless, there is a sign of increasing attention to the streaming piracy problem by government or regulatory bodies in some of our markets. They are aware that traditional laws are not effective in cracking ISDs and have implemented administrative or judicial site blocking to combat ISDs problem as it offers a simple and effective method for preventing internet users from accessing infringing contents.

In September 2018, the Federal Court of Australia, in response to TVB's application, ordered Australia ISPs to block 25 domain names which were being used by 10 ISDs. Following the blocking order, 8 ISDs switched 23 blocked domain names to other new domain names. TVB therefore applied fresh court order against these 23 variant domain names. In March 2019, the Federal Court of Australia ordered these 23 domain names to be blocked by ISPs.

In Macau, a criminal enforcement action against retailers of ISDs was launched by Macau Customs in May 2019. TVB actively participated in the operation by providing technical support at the crime scene and subsequent digital forensic examinations. From the findings of forensic examinations, TVB concluded that the technological protection mechanism of TVB Anywhere box was circumvented by the seized ISDs. The examination report, together with the evidence collected, is now being studied by the Macau Prosecution Office.

In Malaysia, following the continuous lobbying by TVB and local TV coalitions, the Ministry of Domestic Trade and Consumer Affairs ("MDTCA") implemented a "Fast Track" process for copyright owners to submit infringing websites or domain names for blocking purpose. With this "Fast Track" process, infringing websites or domain names may be blocked within days, as opposed to weeks under the past process, after a copyright owner files an application. TVB is going to submit target websites to evaluate the effectiveness of this new process.

In Singapore, TVB is working with a local law firm to apply court order to block 45 domain names for 7 ISDs. It is anticipated that a court application will be officially made in the third quarter of 2019.

In light of the rapid development and proliferation of ISDs and streaming websites, it is paramount for TVB to take a proactive strategy to tackle the problems. Since March 2019, TVB's anti-piracy team commenced to develop a "Landscape System" in order to identify the most rampant pirated websites and the most popular ISDs in individual countries. Based on the results of the "Landscape System", TVB can keep focusing on the priority markets and deploy resources more effectively. The "Landscape System" is now on its trial-run stage and is expected to be deployed in the third quarter of 2019.

STRATEGIC INVESTMENTS

Imagine Tiger Television

During the Period, Imagine Tiger Television ("ITT") began principal photography on its first two productions. *Wu Tang: An American Saga*, created and written by Wu Tang member The RZA and screenwriter Alex Tse, began production in February 2019, and tracks the Wu Tang Clan's formation in the early 90's in New York. The series is scheduled to premiere in September 2019, on the US streaming platform Hulu. *Why Women Kill*, a dark, comedic drama created by Marc Cherry, began production in April 2019 and premiered in August 2019 in the USA on CBS All Access.

ITT is set to begin production on its third series, *68 Whiskey*, written by Roberto Benabib, after receiving a straight-to-series 10-episode order from the Paramount Network. The show is based on Israeli TV series *Charlie Golf One* and follows a mix of men and women deployed as Army medics in Afghanistan. Production will begin in the fall of 2019 and will air on the Paramount Network in the USA in early 2020.

Shaw Brothers Holdings

TVB holds an effective interest of 11.98% in Hong Kong listed Shaw Brothers Holdings (stock code: 00953). During the Period, Shaw Brothers Holdings completed the production of movie *Line Walker II* and drama serial *Flying Tiger 2*. *Line Walker II* was released in August 2019 and *Flying Tiger 2* is targeted for release in the fourth quarter of 2019.

FINANCIAL REVIEW

OPERATING RESULTS

For the Period, the Group's business segments comprised Hong Kong TV broadcasting; myTV SUPER; Big Big Channel business; programme licensing and distribution; overseas pay TV and TVB Anywhere; other activities and corporate support.

Revenue of the Group decreased from HK$2,231 million to HK$1,965 million, a decrease of 12%. The decrease was mainly due to (i) the absence of income recognised from co-production drama serials during the Period (2018: HK$194 million); and (ii) the decrease in revenue from Singapore of approximately HK$95 million, but offset by increases in new media revenue from Mainland China, myTV SUPER and Big Big Channel.

The total costs (including cost of sales, selling, distribution and transmission costs, and general and administrative expenses) decreased from HK$1,987 million to HK$1,724 million, a decrease of 13%, particularly due to the absence of co-production costs in the Period.

Cost of sales decreased from HK$1,145 million to HK$911 million, representing a decrease of 20%. Included in cost of sales were the cost of programmes and film rights amounted to HK$676 million (2018: HK$897 million). The decrease in costs of sales was mainly due to the absence of the costs of co-production drama serials during the Period. In addition, the careful usage of more acquired drama titles to complement the local productions also led to savings in the overall costs of sales for the Period.

As a result, gross profit amounted to HK$1,054 million (2018: HK$1,086 million), a decrease of 3%. Gross profit percentage was 54% (2018: 49%).

Selling, distribution and transmission costs decreased from HK$365 million to HK$324 million, a decrease of 11%. This decrease arose from certain rationalisation in staff costs under programme licensing and distribution business, as well as more effective utilisation of technical resources in the new media businesses.

General and administrative expenses increased from HK$477 million to HK$488 million, reflecting an increase of 2%. Overall, these expenses remained stable as compared with the six months ended 30 June 2018.

SEGMENT RESULTS

Segment revenue from Hong Kong TV broadcasting's external customers decreased from HK$1,435 million to HK$1,228 million, a decrease of 14%, which was mainly due to the absence of income from co-production of drama serials during the Period as explained above. Income from advertisers from terrestrial TV channels in Hong Kong alone reported a decrease from HK$1,151 million to HK$1,136 million, a decrease of 1%. Overall, this segment reported a profit of HK$78 million before impairment loss on investments in bond securities at amortised cost of HK$20 million for the Period (2018: HK$102 million).

Segment revenue from myTV SUPER's external customers increased from HK$182 million to HK$226 million, an increase of 24%, due to increases in advertising revenue and subscription revenue, through the growth in consumption of content on this platform and the introduction of a premium channel bundle – myTV Gold subscription service. This segment reported a profit of HK$32 million for the Period, showing a significant improvement from a break-even during the six months ended 30 June 2018.

Segment revenue from Big Big Channel business's external customers increased from HK$27 million to HK$61 million, an increase of 124%. Due to improved income from events management and more sales support work provided to product placements, this segment recorded a profit of HK$14 million for the Period which turned-around from a loss of HK$20 million for the six months ended 30 June 2018.

Segment revenue from programme licensing and distribution's external customers decreased from HK$485 million to HK$381 million, a decrease of 21%. The decrease in revenue was mainly attributable to the lower licence fee income from our distribution partner in Singapore of approximately HK$95 million, as a result of changes in the terms of the new supply contracts, which was partially compensated by the increase of new media licensing revenue from Mainland China of HK$16 million. On the overheads, the segment benefited from cost saving from restructuring of business in 2018 and a write back of impairment on trade receivables previously made. As a result, this segment reported a profit of HK$278 million for the Period (2018: HK$267 million).

Segment revenue from overseas pay TV and TVB Anywhere's external customers decreased from HK$73 million to HK$67 million, a decrease of 8%. As a result, this segment reported a loss of HK$8 million for the Period (2018: a loss of HK$1 million).

Segment revenue from other activities recorded a decrease from HK$28 million to HK$2 million, a decrease of 93%, mainly due to the cessation of circulation of TVB Weekly since late 2018. As a result, this segment recorded a loss of HK$2 million for the Period (2018: a loss of HK$5 million before non-recurring gain on disposal of investment properties of HK$27 million).

Corporate support segment includes the resources spent on financing (mainly comprising finance costs for the TVB Notes), as well as technical support and development for the major business units of the Group. Revenue represented inter-company service fees charged to group companies. This segment's result recorded a loss of HK$75 million for the Period (2018: a loss of HK$75 million).

Interest income generated from financial assets of the Group which comprised (i) an investment portfolio for treasury management purposes with an aggregated carrying amount of HK$2,559 million (31 December 2018: HK$2,587 million), and (ii) a promissory note to a joint venture company, Imagine Tiger Television LLC ("ITT") in the amount of US$66.7 million (31 December 2018: US$66.7 million) at the interest rate of 12% per annum ("Promissory Note"). Interest income mainly comprised interest from investment portfolio of HK$52 million (2018: HK$48 million) and interest from the Promissory Note of HK$35 million (2018: HK$31 million). During the Period, the Group recorded an overall decrease in interest income from HK$110 million to HK$97 million, a decrease of 12%, which was mainly due to lower interest income earned from bank deposits.

Finance costs for the Period amounted to HK$57 million (2018: HK$69 million) which were mainly attributed to the net interest costs of the US$500 million 3.625% notes due 2021 ("TVB Notes"). The decrease in finance costs was mainly due to the purchase of TVB Notes by the Group which reduced the interest costs by HK$13 million over the six months ended 30 June 2019. The presentation of finance costs on a net basis was made to mirror the netting off of the amount of TVB Notes issued less the amount held by the Group as a single item on the Condensed Consolidated Statement of Financial Position.

The Group absorbed losses of the joint venture, ITT, of HK$53 million during the Period (2018: HK$50 million). During the Period, a number of TV projects entered into production phase and two serials are scheduled to premiere in the second half of 2019. These losses of ITT included interest expenses of HK$35 million on the promissory note (US$66.7 million at 12% per annum) payable to the Group during the Period. This interest income earned by the Group was booked under interest income in the Condensed Consolidated Income Statement for the Period.

Profit before income tax for the Period increased from HK$276 million to HK$280 million, an increase of 1%.

The Group's income tax expense decreased from HK$49 million to HK$46 million, a decrease of 5%. Whilst TVB's main business in Hong Kong was subject to profits tax rate at 16.5%, the Group's major subsidiaries operate in overseas territories whose effective rates vary from 0% to 30%.

Overall, the Group's profit attributable to equity holders for the Period totalled HK$213 million (2018: HK$201 million), giving a basic and diluted earnings per share of HK$0.49 (2018: earnings per share of HK$0.46).

Adjusted EBITDA[5] increased from HK$466 million to HK$503 million, an increase of 8%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash and Treasury Management

The Group continued to maintain a strong financial position as at 30 June 2019. Total equity stood at HK$6,234 million (31 December 2018: HK$6,307 million). There has been no change in the share capital of the Company, with 438,000,000 ordinary shares in issue.

The Group had unrestricted bank and cash balances of HK$854 million (31 December 2018: HK$1,269 million) as at 30 June 2019. About 60% of the unrestricted bank and cash balances were maintained in overseas subsidiaries for their daily operations. Unrestricted bank deposits and cash balances held by the Group were denominated mainly in Hong Kong dollars, US dollars, Renminbi and New Taiwan dollars.

[5] Adjusted EBITDA means profit for the Period before financial costs, income tax expense, depreciation and amortisation, share of results of joint ventures/associates, interest income, impairment loss/reversal of impairment loss on bond securities at amortised cost and trade receivables, fair value adjustments on financial assets at fair value through profit or loss and gain on disposal of investment properties. Adjusted EBITDA is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards. The computation of the Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Under a set of guidelines laid down by the Executive Committee, the Company maintains a portfolio of fixed income securities classified under held-to-maturity investment for overall enhancement of the interest yield of the Company's fund. Such fixed income securities are selected from bonds issued by listed companies or state-owned companies, with or without credit ratings, taking into account business sector; coupon rate and yield-to-maturity; currency; and maturity dates. Guided by an external investment bank, the Investment Committee reviews the portfolio at its regular meetings to ensure that the investment objectives are fulfilled.

As at 30 June 2019, the Company's portfolio of fixed income securities which were classified under held-to-maturity investment, excluding the fixed income bonds issued by China Energy Reserve & Chemicals ("CERC") and SMI Holdings Group Limited ("SMI"), amounted to HK$2,161 million (31 December 2018: HK$2,189 million). These fixed income securities (classified under "Financial assets at amortised cost") were issued by issuers which are listed or unlisted in Hong Kong or overseas, and in aggregate, carry a weighted average yield-to-maturity of 4.7% per annum (31 December 2018: 5.7%) and have maturity dates ranging from 28 July 2019 to 1 October 2027. The investment portfolio is made up by a total of 43 (31 December 2018: 43) issuers of fixed income securities. The largest investment in fixed income securities within the portfolio represented approximately 2.8% (31 December 2018: 2.7%) of the total assets of the Group as at 30 June 2019. The interest received during the Period from the financial assets at amortised cost amounted to HK$52 million (2018: HK$41 million). A performance analysis of fixed income bonds by bond issuers' industry is detailed as below:

Bond issuers by industry	**Carrying value (Note) HK$ million**	**Carrying value over total assets**	**Interest income during the Period HK$ million**
Property developers/property management companies	**975**	10%	25
Financial institutions (banking & insurance)	**908**	9%	20
Others	**278**	3%	7
	2,161		52

Note: Net carrying value is stated after amortisation of costs and impairment.

In addition to the impairment losses made against the CERC and the SMI bonds, a provision for impairment loss for other bond securities at amortised cost of HK$20 million was made at 30 June 2019 after review of the expected credit loss from other bond securities portfolio.

Other Balance Sheet Items

Trade receivables from third parties amounted to HK$1,582 million (31 December 2018: HK$1,895 million), a decrease of 17%, which was mainly due to recovery of long-aged receivables from PRC TV broadcasters and the improvement of trade collection from Hong Kong advertisers. Long-aged debtor balance had been improved throughout the Period. Trade debtors (net of impairment loss) aged over 5 months as at 30 June 2019 decreased to HK$328 million (31 December 2018: HK$404 million). Impairment loss provisions are calculated based on the Group's past history, existing market conditions and forward looking estimates at 30 June 2019.

Other receivables, prepayments and deposits remained at a stable level of HK$562 million (31 December 2018: HK$572 million).

Trade and other payables and accruals remained at a stable level of HK$743 million (31 December 2018: HK$740 million).

At 30 June 2019, the Group's net current assets amounted to HK$3,659 million (31 December 2018: HK$3,855 million), a decrease of 5%. The decrease in net current assets was due to the decrease in cash, as a result of the Group's purchase and holding of fixed income securities within its investment portfolio, including TVB Notes, for yield enhancement purpose during the Period. The current ratio, expressed as the ratio of current assets to current liabilities, was 5.5 at 30 June 2019 (31 December 2018: 5.9).

Borrowings at 30 June 2019 totalled HK$2,564 million (31 December 2018: HK$3,044 million) which were made up mainly by the TVB Notes and a small bank overdraft. During the Period, the Company purchased US$60 million nominal amount of the TVB Notes at a price of US$59 million to form part of the investment portfolio, giving a cumulative US$172 million nominal amount of the purchased TVB Notes, representing approximately 34% of the total issued amount. At 30 June 2019, the gearing ratio, expressed as a ratio of net debts to total equity, was 30.2% (31 December 2018: 29.1%).

TVB Notes, issued by TVB Finance Limited, are guaranteed by the Company and are listed in Hong Kong. The proceeds from TVB Notes had been deployed to fund the development of the digital new media business and other capital expenditures, and to make investments and for general corporate purposes.

At 30 June 2019, the Group had capital commitments totalling HK$133 million (31 December 2018: HK$171 million), a decrease of 22%.

CHINA ENERGY RESERVE & CHEMICALS BONDS

As set out in Note 9(c) to the condensed consolidated financial information, CERC had defaulted the payment of the principal of a bond ("2018 CERC Bond") due in May 2018 and as a result, this triggered a cross default for another bond held by the Group ("2019 CERC Bond") due in January 2019. The aggregated nominal amounts of the 2018 CERC Bond and the 2019 CERC Bond amounted to US$12 million. CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. During the year ended 31 December 2018, coupon payments were received from CERC accruing up to 20 December 2018. Based on the review report of the financial condition prepared by FTI Consulting (Hong Kong) Limited, the financial adviser appointed by CERC, management believes that CERC has both the intention and ability to settle the outstanding balances. However, as the repayment schedule of CERC Bond would be extended in accordance with the debt restructuring plan of CERC, an impairment loss of HK$26 million was made during the year ended 31 December 2018 to reflect the delayed repayment of 2018 and 2019 Bonds' principals.

During the Period, CERC proposed that all coupon payments on the outstanding bonds be suspended pending further notice relating to a restructuring proposal. The Group is closely monitoring the situation and has communicated with the trustee in relation to the recovery of the CERC bonds. As CERC has informed all bondholders that an updated restructuring proposal is soon to be released and there has not been substantial change in the information released by CERC, no further impairment loss was made during the Period.

SMI BONDS

Background

The Group had entered into subscription agreements for US$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") on 23 April 2018 and US$83 million 7.5% secured redeemable convertible coupon bonds due 2020 (extendable to 2021) on 2 May 2018 ("Convertible Bonds" and together with the Fixed Coupon Bonds, the "SMI Bonds"), both issued by SMI, a company listed in Hong Kong (stock code: 00198). The Fixed Coupon Bonds and the Convertible Bonds were classified under "Financial assets at amortised cost" and "Financial assets at fair value through profit or loss" respectively as at 31 December 2018 and 30 June 2019.

The Convertible Bonds are collateralised on a share charge ("Share Charge") given by Campbell Hall Limited, an indirect wholly owned subsidiary of SMI, over the entire issued share capital of SMI International Cinemas Limited ("SMIIC") (the "Collateral"), which in turn holds 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited (成都潤運文化傳播有限公司), a sino-foreign equity joint venture established in the PRC with limited liability ("Chengdu Runyun"). Chengdu Runyun is principally engaged in the operation and the management of movie theatre business of SMI in the PRC and related activities.

Trading in the shares of SMI has been suspended on The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 3 September 2018 and has not been resumed as of the date herein. This event triggered an event of default under the respective subscription agreements for both SMI Bonds. Pursuant to SMI's announcement dated 12 March 2019, SMI has been negotiating and discussing with its lenders and creditors in relation to the possibility of providing additional funding to the SMI Group as well as possible settlement or debt restructuring arrangements, including the conversion of their debts or a portion thereof into equity of SMI and at the same time the introduction of an investor for subscription of new shares of SMI at HK$1.80 per share. As of the date herein, no agreement or material terms in relation to any debt restructuring arrangements have been entered into or agreed between the Company and SMI.

In respect of the Fixed Coupon Bonds, based on an impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180 million (approximately US$23 million) was recognised for the year ended 31 December 2018. And in respect of the Convertible Bonds, the Company performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged to secure the Convertible Bonds. As a result of the assessment performed on the Fixed Coupon Bonds, the Company considered that the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, the Company had determined to perform a fair value assessment on the Collateral as at 31 December 2018. A fair value loss of HK$320 million (approximately US$41 million) against the Convertible Bonds was recognised during the year ended 31 December 2018.

Recovery efforts made

On 20 March 2019, the Special Taskforce of the Board comprising Independent Non-executive Directors Professor Caroline Wang Chia-Ling, Dr. Allan Zeman; Non-executive Director Anthony Lee Hsien Pin and Executive Director Mr. Thomas Hui To was formed, with the objective to consider all available options in recovering amounts invested in the SMI Bonds. The Special Taskforce has retained the services of Mayer Brown and Ernst & Young ("E&Y") to assist it with its deliberations and to provide it with special legal and accounting expertise.

Through the advisers, the Company had submitted requests to SMI for further information concerning the SMI Group, including its audited financial statements for the year ended 31 December 2018; the latest available financial information subsequent to the year then ended; details of its debt restructuring proposals; the latest shareholding structure of the SMI Group; details of the PRC Share Pledges as referred to in the Company's announcement dated 14 May 2019. To date, SMI has not addressed or provided any of the information requested.

In addition, the Company had urged SMI to hold meetings with its creditors collectively, in order for the creditors to assess the debt restructuring proposals and its viability. To date, no such discussions have taken place between SMI and the Company, while the Company is unaware if SMI has held any bilateral discussions with other creditors.

Furthermore, the Special Taskforce had instructed E&Y to solicit possible offers from potential interested buyers of the SMI Bonds.

Discoveries made and the current state of the recovery

As announced by the Company on 14 May 2019, it was discovered through searches in the PRC that SMIIC appeared to have pledged part or all of its 41.34% equity interest in Chengdu Runyun to 浙江中泰創展企業管理有限公司 ("Zhongtai") in August 2018 for RMB500 million; and 深圳星美聖典文化傳媒集團有限公司, which holds another 43% equity interest in Chengdu Runyun, appeared to have pledged part or all of its equity interest in Chengdu Runyun to 上海東祺投資管理有限公司 for RMB648 million in June 2018 (together the "PRC Share Pledges"). The PRC Share Pledges were given without the knowledge or consent of the Company and SMIIC's pledge may constitute a breach of the Share Charge given by Campell Hall Limited. Upon request by the legal adviser of the Company, SMI has confirmed the SMIIC's pledge but failed to provide information in respect of the PRC Share Pledges and the sum secured.

It was noted that the PRC Share Pledges and the loan that SMIIC's pledge secures may negatively impact the value of the security held by the Company. Pursuant to the PRC legal advice obtained by Mayer Brown from Junhe, a PRC law firm, the PRC Share Pledges are legal and valid. In addition, E&Y discovered in public searches that 19 direct subsidiaries of Chengdu Runyun have pledged their shares to third parties for financing purposes. To date, only seven out of 19 charge documents are available for download from the Administration for Industry and Commerce ("AIC") in the PRC. The other charge documents that are unavailable for download may be due to the delay in the update of AIC archives.

According to the announcement of SMI dated 24 May 2019, the board of SMI held the view that the pledge by SMIIC of all of its equity interest in Chengdu Runyun, being approximately 41.34% equity interest in Chengdu Runyun, did not constitute a breach of the contractual restrictions against further pledge of the equity interest in Chengdu Runyun pursuant to the terms and conditions of the Share Charge. The Company has sought legal advice and does not agree with SMI's view in this regard.

On 3 July 2019, the Company had served statutory demands dated 2 July 2019 to SMI in relation to the two SMI Bonds. No response has been received from SMI, despite a 30-day period had elapsed since the service of the statutory demands. On 12 August 2019, the Company applied to the High Court of Hong Kong to be the substituting petitioner for a winding up petition filed by HSBC, the original petitioner, which confirmed that it had reached a settlement with SMI and would no longer proceed with the winding-up petition against SMI. The Court directed that the Company's petition be set down for hearing on a date to be fixed which shall not be earlier than 12 weeks from 12 August 2019, i.e. on or after 4 November 2019. The Company notes that Haitong has also sought to act as the supporting creditor and to substitute as the petitioning creditor should the Company no longer proceed with the winding-up petition.

Valuation

According to the announcement of SMI dated 31 March 2019, SMI was required to publish the announcement in relation to its annual results for the year ended 31 December 2018 on or before 31 March 2019 and to despatch the 2018 annual report on or before 30 April 2019. The board of SMI announced a delay in the release of the 2018 annual results and despatch of the 2018 annual report as it remained in the course of providing the necessary information to its auditors, and neither did it publish the unaudited management accounts for the year ended 31 December 2018. According to the announcement of SMI dated 9 April 2019, it was further disclosed that SMI received a letter on 3 April 2019 from the Stock Exchange, in which the Stock Exchange stated that it has considered it appropriate to require SMI, as an additional resumption guidance, to publish all outstanding financial results and address any audit modifications. With no subsequent related announcement up to the date herein, SMI has still not yet released its audited financial statements nor unaudited management accounts for the year ended 31 December 2018.

As further described in Note 9(b) to the interim financial information, based on the update of recent developments in relation to SMI, Management has performed impairment assessment on the Fixed Coupon Bonds using lifetime expected credit loss model and considered the full impairment charge made in prior year remains appropriate and no reversal of impairment on the Fixed Coupon Bonds was triggered as at 30 June 2019.

In addition, the Company performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the suspension of trading of SMI's shares and update on recent developments in relation to SMI, the Company considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, Management has determined to perform a fair value assessment on the Collateral.

Management has engaged an external independent valuer (the "Valuer") to perform a valuation of the Chengdu Runyun group. Despite various requests made by the Company's advisers to SMI, SMI still failed to provide any of the requested updated financial information for the year ended 31 December 2018 and thereafter. Hence, given the lack of updated financial information on SMI, the Company, after discussion with the Valuer, agrees to adopt an alternative valuation methodology, the market approach, which is further described in Note 10 to the interim financial information. The valuation adopted key inputs based on the budgeted revenue of the Chengdu Runyun group with market condition discount based on external research, as well as other market assumptions such as discount on budgeted revenue based on market conditions, the earnings before interest, taxes, depreciation and amortisation ("EBITDA") margin of the industry, EBITDA multiples of comparable companies in the market and the marketability discount. Estimated borrowings and operating liabilities of SMI Group based on information obtained were also incorporated into the model to arrive at the fair value of the Collateral. On the basis of the independent valuation of the SMI Bonds as at 30 June 2019, the Board has formed the view that no change in the carrying value of the SMI Bonds was considered necessary at this stage.

Going forward

Since its formation, the Special Taskforce has been working expeditiously with its advisers on enforcement and recovery actions with the objective to maximise the recovery of the amounts invested in the SMI Bonds. The Board has reviewed the progress made since the formation of the Special Taskforce and notes that work on recovery actions has not progressed in a sufficiently advanced manner as anticipated in order for it to consider all the available options for recovery.

The Company will continue to work on both soliciting appropriate possible offers for the SMI Bonds or their recovery (in whole or in part) from SMI. During the coming months, the Company, together with the Special Taskforce, will continue to assess all available options. The Company continues to assess the carrying amount of the Convertible Bonds and will further assess the need for further impairment, if any, at the year end.

TVB FINANCE LIMITED

As at 30 June 2019, the Company held US$172 million (31 December 2018: US$112 million) in nominal value of US$500 million 3.625% Notes due 2021 issued by TVB Finance Limited. This holding in TVB Notes was presented and netted off against the liabilities of TVB Notes under "Non-current borrowings" on the Condensed Consolidated Statement of Financial Position.

FINANCIAL GUARANTEES

At 30 June 2019, there were guarantees given to banks amounting to HK$7 million (31 December 2018: HK$7 million) for banking facilities granted to an investee company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's foreign currency exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arise from trade receipts from overseas customers.

The Group is also exposed to currency fluctuation on translation of the accounts of overseas subsidiaries and also on the repatriation of earnings and loans, and TVB Notes. In order to mitigate the potential impact of currency movements, the Group closely monitors its foreign exchange exposures and uses suitable hedging arrangements against significant foreign currency exposures, where necessary. No forward exchange or hedging contract was entered into by the Group during the Period.

SHARE OPTION SCHEMES

The Company and a wholly-owned subsidiary, Big Big Channel Holdings Limited adopted the Share Option Scheme and the Subsidiary Share Option Scheme (collectively "Share Option Schemes") respectively on 29 June 2017. These Share Option Schemes are valid and effective for a period of ten years from the date of adoption. 17,000,000 share options were granted by the Company under the Share Option Scheme in 2018. During the Period, no share options had been granted by the Company under the Share Option Scheme or by Big Big Channel Holdings Limited under the Subsidiary Share Option Scheme respectively.

HUMAN RESOURCES

As of 30 June 2019, the Group employed a total of 3,920 full-time employees (31 December 2018: 4,041), including contract artistes and staff in overseas subsidiaries. This figure excluded Directors and freelance workers.

For employees in Hong Kong, different pay schemes apply to contract artistes, sales, and non-sales personnel. Contract artistes are paid either per show or per package of shows. Sales personnel are remunerated on commission-based schemes, while non-sales personnel receive monthly salaries. Discretionary bonuses may be awarded as an incentive for better performance. About 2% of the Group's manpower was employed in overseas subsidiaries and paid on scales and systems relevant to the respective localities and legislations.

Under the Share Option Schemes of the Group, options may be granted to Directors and employees of the Group to subscribe for shares in the Company or in Big Big Channel Holdings Limited.

The Group periodically organises seminars, courses, and workshops on subjects of technical interests, such as industrial safety, management skills, and other relevant topics, either in-house or with other vocational institutions. Apart from training sponsored by the Company, employees may also enroll in other courses on their own initiatives.

To sustain the long-term steady supply of human resources for production, the Group has implemented a number of new initiatives targeting training and development of internal staff for TV production in the areas of design and construction of settings for production, make-up and costume design, with a view to ensure that the necessary skills sets are appropriately retained and developed within the business.

EXTRACT OF REVIEW REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the interim financial information of the Group for the six months ended 30 June 2019.

Basis for Qualified Conclusion

As at 30 June 2019, the Group held (i) a US$23 million (approximately HK$180 million) principal amount 9.5% unsecured redeemable fixed coupon bonds due in April 2020 (the "Fixed Coupon Bonds") (which are classified as financial assets at amortised cost) and (ii) a US$83 million (approximately HK$650 million) principal amount 7.5% secured redeemable convertible bonds due in May 2020 (the "Convertible Bonds") (which are classified as financial assets at fair value through profit or loss) (or collectively the "Bonds"). The Bonds were both issued by SMI Holdings Group Limited ("SMI", and together with SMI's subsidiaries hereinafter referred to as "SMI Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Convertible Bonds are secured by way of a priority charge against 100% of the issued share capital of SMI International Cinemas Limited ("SMI International", an indirect wholly owned subsidiary of SMI) (the "Collateral"). SMI International is an investment holding company that owns 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"). As management expects the Bonds are to be realised more than 12 months after 30 June 2019, they are classified as non-current assets.

Trading of SMI's shares on the Stock Exchange has been suspended since 3 September 2018 and has not been resumed as at the date of this report, which has triggered an event of default under the respective subscription agreements for both Bonds. Based on SMI's announcement on its financial position and business operations on 2 June 2019, it is currently short of sufficient working capital to support its business operations and approximately 171 out of 336 movie theatres in the PRC remain in operations. Furthermore, SMI has also announced that it is in negotiations with its lenders and creditors in relation to debt restructuring including conversion of debts to equity but no material terms or arrangements have been reached.

During the year ended 31 December 2018, management performed an impairment assessment of the Fixed Coupon Bonds based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors using lifetime expected credit loss model. A full impairment charge of the Fixed Coupon Bonds of HK$180 million was recognised for the year ended 31 December 2018. In addition, management performed a fair value assessment of the Convertible Bonds based on a valuation of the Chengdu Runyun group using the discounted cash flow model under the income approach. The fair value assessment has adopted certain key operating assumptions provided by SMI, including number of cinemas, cinema attendance rates, ticket price, market discount rate and terminal growth rates. Based on the fair value assessment, a fair value loss of HK$320 million on the Convertible Bonds was recognised for the year ended 31 December 2018.

During the six months ended 30 June 2019, based on the searches conducted by the Company's financial adviser, management noted indications that SMI International had in August 2018 pledged part or all of its 41.34% equity interest in Chengdu Runyun group in favour of a third party in China for a borrowing amounted to RMB500 million. Management has also identified instances of alleged pledges of Chengdu Runyun group's subsidiaries and assets for other borrowings or as pledged securities of bank accounts. However, the completeness and extent of the pledges being made by SMI, SMI International and Chengdu Runyun group remains unclear.

As further described in notes 9 and 10 to the interim financial information, based on the update on recent developments in relation to SMI, management has performed impairment assessment on the Fixed Coupon Bonds using lifetime expected credit loss model and considered the full impairment charge made in prior year remains appropriate and no reversal of impairment on the Fixed Coupon Bonds was triggered as at 30 June 2019. In addition, management performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the suspension of trading of SMI's shares and update on recent developments in relation to SMI, management considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, management has determined to perform a fair value assessment on the Collateral. Management has engaged an independent external valuer to perform a valuation of the Chengdu Runyun group using the market approach, which is further described in note 10 to the interim financial information. Information obtained on estimated borrowings and operating liabilities of SMI Group were also incorporated into the model in the order of liquidation priority to arrive at the fair value of the Collateral. The valuation adopted key inputs based on the budgeted revenue of the Chengdu Runyun group provided by SMI, the information of the pledged assets and subsidiaries of Chengdu Runyun group based on external research, as well as other market assumptions such as discount on budgeted revenue based on market conditions, the Earnings before interest, taxes, depreciation and amortisation ("EBITDA") margin of the industry, enterprise value/ EBITDA multiples of comparable companies in the market and the marketability discount. Based on the assessment, management considers no fair value changes on the Convertible Bonds was necessary as at 30 June 2019.

As of the date of this report, SMI has not announced its audited results for the year ended 31 December 2018 or any later period nor provided sufficient information in its announcements about the extent of its liabilities and pledge of its subsidiaries and assets against borrowings or the current status of operations of SMI Group and Chengdu Runyun group. Management was not able to provide other sources of information nor were we able to have access to SMI, SMI International and/or Chengdu Runyun group to obtain collaborative evidence. We were unable to obtain sufficient appropriate evidence we considered necessary to assess or corroborate the appropriateness of the key inputs and key assumptions adopted by management in their assessments, which included but not limited to (i) the latest audited financial information of SMI, SMI International and Chengdu Runyun group as at and for the year ended 31 December 2018 or any subsequent periods; (ii) other evidence to assess the current status and extent of SMI Group's pledge of assets, extent of its borrowings and the status of its debt restructuring; and (iii) other key valuation inputs and assumptions about SMI Group and Chengdu Runyun group.

Given the above scope limitation, there were no other satisfactory procedures that we could perform to determine whether the classification of financial assets at amortised cost of the Fixed Coupon Bonds and the financial assets at fair value through profit or loss of the Convertible Bonds as non-current assets were appropriate; and whether any adjustments to the carrying values of the Fixed Coupon Bonds carried at nil balance and the Convertible Bonds of HK$330 million as at 30 June 2019 and the corresponding adjustments on the interim condensed consolidated income statement were necessary.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the "Basis for Qualified Conclusion" section of our report, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

VIEWS OF THE AUDIT COMMITTEE ON THE QUALIFIED REVIEW CONCLUSION

At the meeting of the Audit Committee of the Board held on 14 August 2019, the Audit Committee reviewed the basis of determining the fair value of the Convertible Bonds. The Audit Committee agreed on the fair value estimation approach on the Collateral and the determination of the fair value as it represented the best estimates available to the Group. The Audit Committee also agreed that the auditor of the Company was not able to obtain sufficient appropriate evidence they considered necessary to assess or corroborate the appropriateness of the key inputs and key assumptions adopted by management in their assessments on the carryings amount of Fixed Coupons Bonds and Convertible Bonds, and thus the issuance of a qualified review conclusion is understandable.

OVERCOMING POSSIBILITY OF FUTURE QUALIFIED OPINIONS

As the efforts to explore recovery of the investment amounts in the SMI Bonds continue, the Audit Committee and the auditor agreed that any resolution for overcoming possibility of future qualified opinions would depend on progress of the recovery efforts, the accounting treatment for which may call for different sets of supporting financial information.

Management of the Company, under the direction of the Special Taskforce, is working to recover as much as possible the amounts invested and to consider any possible offers for the SMI Bonds, and to address the issue of the audit qualifications, so that moving forward, such qualifications may be removed.

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

During the Period, the Company purchased US$60,000,000 nominal amount of TVB Notes issued by TVB Finance Limited through open market. As at 30 June 2019, US$500,000,000 nominal amount of TVB Notes remained outstanding. Details of TVB Notes and the purchase are set out in Note 13 to the condensed consolidated financial information.

Except for the above, the Company had not redeemed, and neither had the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted its own code on corporate governance, the TVB Corporate Governance Code ("TVB CG Code"), which is in line with the requirements of the Corporate Governance Code as set out in Appendix 14 ("CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company was in compliance with the code provisions of the CG Code during the Period.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"), as the code for Directors and members of Senior Management in their dealings in the securities of the Company.

All Directors and members of Senior Management were subject to specific enquiries by the Company as part of their bi-annual confirmations of compliance have confirmed that they had complied with the Model Code throughout the Period.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial information for the Period has not been audited, but has been reviewed by PricewaterhouseCoopers, the external auditor of the Company. The Audit Committee of the Company has reviewed with Management the accounting principles and practices adopted by the Group and discussed financial reporting matters, including a review of the unaudited condensed consolidated financial information and the interim report for the Period. PricewaterhouseCoopers has issued a qualified conclusion on the interim financial information for the six months ended 30 June 2019. Please refer to "Extract of review report" on pages 52 to 54 of this announcement for more details.

INTERIM DIVIDEND

The Board of Directors has declared the payment of an interim dividend of HK$0.30 per share for the year ending 31 December 2019 ("Interim Dividend") to shareholders of the Company ("Shareholders"). The Interim Dividend will be paid in cash to Shareholders whose names are recorded on the Register of Members of the Company on 23 September 2019. The dividend warrants will be despatched to Shareholders on 4 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 19 September 2019 to Monday, 23 September 2019, both dates inclusive, for the purpose of determining Shareholders' entitlement to the Interim Dividend. During the said book close period, no transfer of shares will be registered. In order to be entitled to the Interim Dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 18 September 2019.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.corporate.tvb.com) and the designated issuer website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The Company's 2019 Interim Report containing all the information required by the Listing Rules will be despatched to Shareholders and made available on the above websites in mid-September 2019.

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 21 August 2019

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

Chairman and Non-executive Director
Dr. Charles CHAN Kwok Keung

Vice Chairman and Non-executive Director
LI Ruigang

Executive Directors
Mark LEE Po On Group Chief Executive Officer
CHEONG Shin Keong General Manager
Thomas HUI To

Non-executive Directors
Anthony LEE Hsien Pin
CHEN Wen Chi

Independent Non-executive Directors
Dr. Raymond OR Ching Fai SBS, JP
Dr. William LO Wing Yan JP
Professor Caroline WANG Chia-Ling
Dr. Allan ZEMAN GBM, GBS, JP