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Starrise Media Holdings Limited

星宏傳媒控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

SUMMARY

- Revenue for the Year was approximately RMB961.4 million, representing an increase of approximately 96.5% as compared to the revenue of approximately RMB489.2 million recognised in the previous year from continuing operations.
- Gross profit for the Year was approximately RMB210.2 million, representing an increase of approximately 196.1% as compared to the gross profit of approximately RMB71.0 million recognised in the previous year from continuing operations.
- Gross profit margin was approximately 21.9%, representing an increase of approximately 7.4 percentage points as compared to the gross profit margin of approximately 14.5% for the previous year.
- Loss attributable to the equity shareholders of the Company was approximately RMB144.7 million, representing an increase in losses of approximately RMB63.6 million as compared to the loss attributable to the equity shareholders of the Company of approximately RMB81.1 million for the previous year.

DIVIDEND

- The Board does not recommend the payment of any final dividend for the Year.

The board (the “**Board**”) of directors (the “**Directors**”) of Starrise Media Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2018 (the “**Year**” or “**Period under Review**”) together with the comparative figures in 2017 as set out below. The consolidated results have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Continuing operations			
Revenue	3	961,369	489,158
Cost of sales and services		(751,131)	(418,139)
Gross profit		210,238	71,019
Other net loss	4	(172,594)	(6,698)
Distribution costs		(25,778)	(18,068)
Administrative expenses		(78,302)	(75,508)
Loss from operations		(66,436)	(29,255)
Net finance costs	5(a)	(65,471)	(73,738)
Share of losses less profits of associates		–	(5,698)
Loss before taxation from continuing operations	5	(131,907)	(108,691)
Income tax	6	(12,456)	(3,692)
Loss for the year from continuing operations		(144,363)	(112,383)
Discontinued operation			
Profit for the year from discontinued operation		–	30,446
Loss and total comprehensive income for the year		(144,363)	(81,937)

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

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Attributable to:			
Equity shareholders of the Company		(144,725)	(81,119)
Non-controlling interests		<u>362</u>	<u>(818)</u>
Loss and total comprehensive income for the year		<u>(144,363)</u>	<u>(81,937)</u>
Basic and diluted (loss)/earnings per share (RMB cents)			
	7		
– Continuing and discontinued operations		(11.72)	(7.76)
– Continuing operations		(11.72)	(10.67)
– Discontinued operation		<u>–</u>	<u>2.91</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in Renminbi Yuan)

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		431,054	389,434
Interests in leasehold land held for own use under operating leases		61,648	62,968
		492,702	452,402
Intangible assets		1,069	17
Goodwill		441,475	441,475
Investments in equity securities		–	1,000
Other receivables	8	10,799	2,984
Deferred tax assets		1,786	912
		947,831	898,790
Current assets			
Inventories		140,120	131,137
Drama series and films		224,958	201,747
Trade and other receivables	8	500,480	437,267
Pledged bank deposits		11,000	32,884
Cash and cash equivalents		284,689	155,598
		1,161,247	958,633
Current liabilities			
Trade and other payables	9	268,954	230,040
Contract liabilities		11,233	–
Bank loans	10	180,500	201,250
Other borrowings	11	434,480	159,659
Obligations under finance leases		12,201	–
Current taxation		27,776	17,820
		935,144	608,769

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018

(Expressed in Renminbi Yuan)

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Net current assets		<u>226,103</u>	<u>349,864</u>
Total assets less current liabilities		<u>1,173,934</u>	<u>1,248,654</u>
Non-current liabilities			
Other borrowings	<i>11</i>	206,345	229,672
Obligations under finance leases		11,973	–
Deferred tax liabilities		<u>3,101</u>	<u>1,025</u>
		<u>221,419</u>	<u>230,697</u>
Net assets		<u>952,515</u>	<u>1,017,957</u>
Capital and reserves			
Share capital	<i>12</i>	79,730	66,559
Reserves		<u>873,192</u>	<u>942,837</u>
Total equity attributable to equity shareholders of the Company		952,922	1,009,396
Non-controlling interests		<u>(407)</u>	<u>8,561</u>
Total equity		<u>952,515</u>	<u>1,017,957</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

Note	Attributable to equity shareholders of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2017	66,559	523,284	64,743	118,450	317,479	1,090,515	9,379	1,099,894
Changes in equity for 2017:								
Loss and total comprehensive income for the year	-	-	-	-	(81,119)	(81,119)	(818)	(81,937)
Appropriations to statutory reserve	-	-	1,352	-	(1,352)	-	-	-
Balance at 31 December 2017 and 1 January 2018	66,559	523,284	66,095	118,450	235,008	1,009,396	8,561	1,017,957
Changes in equity for 2018:								
Loss and total comprehensive income for the year	-	-	-	-	(144,725)	(144,725)	362	(144,363)
Shares issuance	13,171	111,145	-	-	-	124,316	-	124,316
Acquisition of non-controlling interests without a change in control	-	-	-	(36,065)	-	(36,065)	(9,330)	(45,395)
Appropriations to statutory reserve	-	-	9,697	-	(9,697)	-	-	-
Balance at 31 December 2018	79,730	634,429	75,792	82,385	80,586	952,922	(407)	952,515

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

	2018 RMB'000	2017 RMB'000
Operating activities		
Cash generated from/(used in) operations	44,496	(157,239)
Income tax paid	(1,298)	(4,736)
Net cash generated from/(used in) operating activities	43,198	(161,975)
Investing activities		
Acquisition of a subsidiary, net of cash acquired	(30,000)	3,446
Payments for purchase of non-controlling interests in subsidiaries	(45,395)	–
Disposal of subsidiaries, net of cash and cash equivalents disposed of	116,160	(50,742)
Disposal of an associate	6,000	6,000
Disposal of investments in equity securities	–	103
Payments for the purchase of property, plant and equipment and leasehold land	(96,385)	(36,227)
Proceeds from sale of property, plant and equipment	10,401	2,465
Payments for advance to third parties	(32,997)	(22,684)
Decrease in fixed bank deposits	–	25,000
Decrease/(increase) in pledged bank deposits	22,667	(22,870)
Proceeds from repayments of advance to third parties	17,793	200
Net proceeds from purchases and sales of non-equity investments	201	1,477
Repayment from an associate	–	2,000
Interest received	3,627	252
Net cash used in investing activities	(27,928)	(91,580)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

	2018 RMB'000	2017 RMB'000
Financing activities		
Capital element of finance lease rental paid	24,174	(3,850)
Proceeds from bank loans	180,500	246,250
Repayment of bank loans	(201,250)	(214,000)
Proceeds from shares issuance	124,316	–
Proceeds from issuance of convertible bonds	–	265,740
Payments for redemption of convertible bonds	(178,424)	–
Proceeds from issuance of bonds	191,315	–
Repayment of advance from third parties	(32,626)	(15,172)
Proceeds for advance from third parties	24,000	32,626
Repayment of loans from a non-controlling shareholder	–	(8,712)
Interest element of finance lease rental paid	(1,757)	(31)
Other borrowing costs paid	(35,502)	(62,469)
	<hr/>	<hr/>
Net cash generated from financing activities	94,746	240,382
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	110,016	(13,173)
Cash and cash equivalents at 1 January	155,598	173,037
Effect of foreign exchange rate change	19,075	(4,266)
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	284,689	155,598
	<hr/>	<hr/>

NOTES:

(Expressed in Renminbi Yuan unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group’s interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Investments in equity securities
- derivative financial instruments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current account period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- (i) IFRS 9, *Financial instruments*
- (ii) IFRS 15, *Revenue from contracts with customers*
- (iii) IFRIC 22, *Foreign currency transactions and advance consideration*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

3 REVENUE AND SEGMENT REPORT

(a) Revenue

The principal activities of the Group are manufacturing and sales of textile products and provision of related processing service, as well as production, distribution and licensing of drama series and films. Further details regarding the Group's principal activities are disclosed in note 3(b).

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

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note)		(Note)		(Note)
Revenue from contracts with customers within the scope of IFRS 15						
Disaggregated by major products or service lines						
– Sales of textile products	581,717	383,375	–	249,216	581,717	632,591
– Licensing of drama series and films	247,924	40,348	–	–	247,924	40,348
– Provision of textile products processing services	27,326	28,654	–	22,450	27,326	51,104
– Provision of drama series and films production, distribution and related services	104,402	36,781	–	–	104,402	36,781
	961,369	489,158	–	271,666	961,369	760,824

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18.

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

The Group's customer base is diversified and includes only one customer (2017: Nil) with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2018. In 2018 revenues from sales of textile products to this customer amounted to approximately RMB152,004,000 (2017: Nil).

3 REVENUE AND SEGMENT REPORT (CONTINUED)

(b) Segment reporting

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

- Textile: this segment manufactures and sells textile products, and provides related processing services. Currently the Group's activities in this segment are carried out in the People's Republic of China (the "PRC").

The Group disposed a subgroup of textile segment which is principally engaged in manufacture and sale of dobby grey fabrics on 5 November 2017. The results of the disposed subgroup of textile segment for the period from 1 January 2017 to 5 November 2017 was classified as a discontinued operation accordingly.

- Media: this segment produces, distributes and licenses drama series and films and provides related services. Currently the Group's activities in this segment are carried out in the PRC.

(i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets. Segment liabilities include trade creditors, accruals, bills payable and other payables attributable to the segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment results is "adjusted profit/(loss) before taxes". To arrive at adjusted profit/(loss) before taxes, the Group's profit/(loss) are adjusted for items not specifically attributed to individual segments, such as net finance cost relating to the convertible bonds and fair value change of derivatives embedded in convertible bonds, and impairments resulting from isolated, non-recurring events, such as impairment of goodwill.

In addition to receiving segment information concerning adjusted profit/(loss) before taxes, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

3 REVENUE AND SEGMENT REPORT (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Continuing operations				Discontinued operation		Total	
	Textile		Media		Textile			
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note)		(Note)		(Note)		(Note)
Disaggregated by timing of revenue recognition								
Point in time	581,717	383,375	278,119	41,870	–	249,216	859,836	674,461
Over time	27,326	28,654	74,207	35,259	–	22,450	101,533	86,363
Revenue from external customers	609,043	412,029	352,326	77,129	–	271,666	961,369	760,824
Inter-segment revenue	–	–	–	–	–	–	–	–
Reportable segment revenue	609,043	412,029	352,326	77,129	–	271,666	961,369	760,824
Reportable segment result (adjusted profit/(loss) before taxes)	11,323	8,523	83,084	(10,013)	–	35,065	94,407	33,575
Interest income on bank deposits	199	126	6,167	21	–	105	6,366	252
Interest on bank loans and other financial liabilities	8,370	4,924	4,487	5,092	–	3,881	12,857	13,897
Depreciation and amortisation for the year	43,610	41,607	1,230	4,568	–	14,889	44,840	61,064
Reportable segment assets	714,921	710,563	1,349,540	1,031,688	–	–	2,064,461	1,742,251
Additions to non-current segment assets during the year	92,690	35,214	69	528	–	–	92,759	35,742
Reportable segment liabilities	279,268	251,988	222,925	190,998	–	–	502,193	442,986

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18.

3 REVENUE AND SEGMENT REPORT (CONTINUED)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
Reportable segment revenue	961,369	489,158	–	271,666	961,369	760,824
Elimination of inter-segment revenue	–	–	–	–	–	–
Consolidated revenue (note 3(a))	<u>961,369</u>	<u>489,158</u>	<u>–</u>	<u>271,666</u>	<u>961,369</u>	<u>760,824</u>
Profit/(loss)						
Reportable segment profit/(loss)	94,407	(1,490)	–	35,065	94,407	33,575
Elimination of inter-segment profits	–	–	–	–	–	–
Reportable segment profit/(loss) derived from the Group's external customers	94,407	(1,490)	–	35,065	94,407	33,575
Interest on convertible bonds	(54,789)	(68,149)	–	–	(54,789)	(68,149)
Interest on bonds	(7,971)	–	–	–	(7,971)	–
Change in fair value of derivatives embedded in convertible bonds	(176,535)	56,315	–	–	(176,535)	56,315
Impairment of goodwill	–	(76,444)	–	–	–	(76,444)
Unallocated head office and corporate gain/(expenses) (net)	<u>12,981</u>	<u>(18,923)</u>	<u>–</u>	<u>–</u>	<u>12,981</u>	<u>(18,923)</u>
Consolidated profit/(loss) before taxation	<u>(131,907)</u>	<u>(108,691)</u>	<u>–</u>	<u>35,065</u>	<u>(131,907)</u>	<u>(73,626)</u>
				2018		2017
				RMB'000		RMB'000
Assets						
Reportable segment assets				2,064,461		1,742,251
Elimination of inter-segment receivables				(100)		(1,100)
				<u>2,064,361</u>		<u>1,741,151</u>
Unallocated head office and corporate assets				44,717		116,272
Consolidated total assets				<u>2,109,078</u>		<u>1,857,423</u>
Liabilities						
Reportable segment liabilities				502,193		442,986
Elimination of inter-segment payables				(100)		(1,100)
				<u>502,093</u>		<u>441,886</u>
Unallocated head office and corporate liabilities				654,470		397,580
Consolidated total liabilities				<u>1,156,563</u>		<u>839,466</u>

3 REVENUE AND SEGMENT REPORT (CONTINUED)

(b) Segment reporting (Continued)

(iii) Geographic information

The Group principally operates in the PRC and its major operating assets are located in the PRC. The following table sets out information about the geographical locations of the Group's revenue from external customers. The geographical locations of customers are based on the locations at which the services were provided or the goods were delivered.

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	901,609	442,490	–	271,666	901,609	714,156
Overseas	59,760	46,668	–	–	59,760	46,668
	<u>961,369</u>	<u>489,158</u>	<u>–</u>	<u>271,666</u>	<u>961,369</u>	<u>760,824</u>

4 OTHER NET LOSS

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Change in fair value of derivatives embedded in convertible bonds	(176,535)	56,315	–	–	(176,535)	56,315
Gain on disposal of an associate	–	10,239	–	–	–	10,239
Impairment of goodwill	–	(76,444)	–	–	–	(76,444)
Net gain on sale of raw materials and scrap materials	–	249	–	–	–	249
Net gain/(loss) on disposal of property, plant and equipment	2,648	(783)	–	–	2,648	(783)
Government grants	2,512	4,094	–	60	2,512	4,154
Net gain from non-equity investments	201	1,143	–	334	201	1,477
Others	(1,420)	(1,511)	–	(100)	(1,420)	(1,611)
	<u>(172,594)</u>	<u>(6,698)</u>	<u>–</u>	<u>294</u>	<u>(172,594)</u>	<u>(6,404)</u>

5 LOSS BEFORE TAXATION

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

(a) Net finance costs

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest on convertible bonds	54,789	68,149	–	–	54,789	68,149
Interest on bonds	7,971	–	–	–	7,971	–
Interest on bank loans and other financial liabilities	12,857	10,016	–	3,881	12,857	13,897
Finance charges on obligations under finance leases	1,757	31	–	–	1,757	31
Interest income on bank deposits	(6,366)	(147)	–	(105)	(6,366)	(252)
Net foreign exchange gain	(6,088)	(4,877)	–	(11)	(6,088)	(4,888)
Other finance charges	551	566	–	32	551	598
	<u>65,471</u>	<u>73,738</u>	<u>–</u>	<u>3,797</u>	<u>65,471</u>	<u>77,535</u>

(b) Staff costs

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	97,597	86,590	–	30,535	97,597	117,125
Contributions to defined contribution retirement plan	4,932	4,162	–	993	4,932	5,155
	<u>102,529</u>	<u>90,752</u>	<u>–</u>	<u>31,528</u>	<u>102,529</u>	<u>122,280</u>

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the “Schemes”) organised by the relevant local authorities whereby the Group is required to make contributions to the Schemes at certain percentages of the eligible employees’ salaries for the years ended 31 December 2018 and 2017. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees. The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

5 LOSS BEFORE TAXATION (CONTINUED)

(c) Other items

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note)		(Note)		(Note)
Amortisation						
– leasehold land	1,402	1,402	–	–	1,402	1,402
– intangible assets	134	3,446	–	6	134	3,452
Depreciation	43,304	41,327	–	14,883	43,304	56,210
Operating lease charges: minimum lease payments for properties	6,834	5,467	–	–	6,834	5,467
Impairments losses						
– goodwill	–	76,444	–	–	–	76,444
– inventories	344	692	–	–	344	692
– drama series and films	363	7,000	–	–	363	7,000
– trade and other receivables	4,176	3,565	–	160	4,176	3,725
Reversal of impairment losses						
on trade and other receivables	(652)	–	–	(1,865)	(652)	(1,865)
Gain on disposal of an associate	–	(10,239)	–	–	–	(10,239)
Auditors' remuneration						
– audit services	2,400	2,200	–	–	2,400	2,200
– other services	220	500	–	–	220	500
Cost of inventories	521,263	343,350	–	224,093	521,263	567,443
Cost of drama series and films	210,324	47,646	–	–	210,324	47,646

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

6 INCOME TAX

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current tax						
Provision for the year	11,254	3,509	–	4,619	11,254	8,128
Deferred tax						
Origination and reversal of temporary differences	1,202	183	–	–	1,202	183
	<u>12,456</u>	<u>3,692</u>	<u>–</u>	<u>4,619</u>	<u>12,456</u>	<u>8,311</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

6 INCOME TAX (CONTINUED)

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents: (Continued)

- (ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the years ended 31 December 2018 and 2017, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.
- (iii) For the year ended 31 December 2018, the Group's PRC subsidiaries are subject to income tax rate of 25% (2017: 25%).
- (iv) Dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd., Star Rise Investments Ltd. and Star Will Investments (HK) Ltd., Hong Kong subsidiaries of the Company, would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.
- (v) Pursuant to the PRC Enterprise Income Tax preferential policies in Horgos of Xinjiang province, Horgos Star Rise Culture Media Co., Ltd. and Horgos Yingsheng Film and TV Culture Co., Ltd., subsidiaries of the Company located in Horgos of Xinjiang province and are principally engaged in the production and distribution of drama series and films, are entitled to a tax holiday of 5-year full exemption on Enterprise Income Tax commencing from the first revenue-generating year. The first exemption year is 2016.

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Continuing operations		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation	<u>(131,907)</u>	<u>(108,691)</u>	<u>–</u>	<u>35,065</u>	<u>(131,907)</u>	<u>(73,626)</u>
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to the profits in the jurisdictions concerned	24,924	(28,495)	–	3,590	24,924	(24,905)
Tax effect of filing difference	(1,453)	(509)	–	(1,179)	(1,453)	(1,688)
Tax effect of non-deductible expenses	1,259	28,934	–	527	1,259	29,461
Tax effect of unused tax losses not recognised	1,422	6,201	–	72	1,422	6,273
Statutory tax concession	(15,377)	(2,085)	–	–	(15,377)	(2,085)
PRC dividend withholding tax	2,956	–	–	2,200	2,956	2,200
Others	<u>(1,275)</u>	<u>(354)</u>	<u>–</u>	<u>(591)</u>	<u>(1,275)</u>	<u>(945)</u>
Income tax expense	<u>12,456</u>	<u>3,692</u>	<u>–</u>	<u>4,619</u>	<u>12,456</u>	<u>8,311</u>

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share for the year ended 31 December 2018 is based on the (loss)/profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares, calculated as follows:

(a) (Loss)/profit attributable to ordinary equity shareholders of the Company

	2018 RMB'000	2017 RMB'000
– From continuing operations	(144,725)	(111,565)
– From a discontinued operation	–	30,446
	<u>(144,725)</u>	<u>(81,119)</u>

(b) Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	1,045,749,656	1,045,749,656
Effect of shares issuance	188,958,904	–
	<u>1,234,708,560</u>	<u>1,045,749,656</u>

For the years ended 31 December 2018 and 2017, no adjustment is made in relation to the Company's outstanding convertible bonds as their assumed conversion would decrease the loss per share.

8 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade debtors and bills receivable, net of loss allowance	(i)	251,213	75,459	105,312
Deposits, prepayments and other receivables		236,105	325,393	325,393
Amount due from an associate		23,961	9,546	9,546
		<u>511,279</u>	<u>410,398</u>	<u>440,251</u>
Other receivables expected to be collected or recognised as expense after more than one year		(10,799)	(2,984)	(2,984)
Trade and other receivables expected to be recovered or recognised as expense within one year		<u>500,480</u>	<u>407,414</u>	<u>437,267</u>

8 TRADE AND OTHER RECEIVABLES (CONTINUED)

Note

- (i) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones, were reclassified to "contract assets".

(a) Ageing analysis

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

	2018 RMB'000	2017 RMB'000
Current	241,982	61,085
Less than 3 months past due	4,603	7,081
3 to 6 months past due	1,742	4,179
6 to 12 months past due	2,011	32,967
1 to 2 years past due	875	—
Amounts past due	9,231	44,227
	251,213	105,312

Trade debtors and bills receivables are due within 1 to 6 months from the date of billing.

(b) Deposits, prepayments and other receivables

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Prepayments and advances relating to drama series and films		90,261	138,660
Prepayments relating to purchases of raw materials		5,449	26,536
Other receivables relating to disposal of subsidiaries	(i)	—	116,160
Other receivables relating to disposal of an associate	(ii)	—	6,000
Advances to third parties	(iii)	127,287	24,006
Deferred expenses		3,795	3,388
Value-added tax recoverable		672	1,742
Prepayments relating to purchases of property, plant and equipment		1,071	145
Others		7,570	8,756
		236,105	325,393

8 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Deposits, prepayments and other receivables (Continued)

Notes:

- (i) The balance represents the outstanding portion of consideration for the disposal of equity interests in Swift Power Limited and its subsidiaries during the year end 31 December 2017, which was subsequently settled in February and March 2018 respectively.
- (ii) The balance represents the consideration receivable for the disposal of an associate during the year ended 31 December 2017, which was subsequently settled in January 2018.
- (iii) As at 31 December 2018, advances to third parties of RMB82,808,000 are unsecured, interest-bearing at 8%-36% per annum and repayable within one year. Other advances to third parties as at 31 December 2018 are unsecured, interest-free and repayable on demand.

As at 31 December 2017, advances to third parties of RMB17,793,000 are unsecured, interest-bearing at 8% per annum and repayable within one year. Other advances to third parties as at 31 December 2017 are unsecured, interest-free and repayable on demand.

9 TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade creditors and bills payable	45,920	36,458	36,458
Receipts in advance (<i>note</i>)	29,439	33,555	42,921
Other creditors and accrued charges	193,595	150,661	150,661
	268,954	220,674	230,040

Note: As a result of the adoption of IFRS 15, advances received from customers are included in contract liabilities.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

9 TRADE AND OTHER PAYABLES (CONTINUED)

(a) Ageing analysis

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

	2018 RMB'000	2017 RMB'000
Due within 3 months or on demand	33,860	26,041
Due after 3 months but within 6 months	8,275	7,176
Due after 6 months but within 12 months	3,785	3,241
	<u>45,920</u>	<u>36,458</u>

(b) Other creditors and accrued charges

	Note	2018 RMB'000	2017 RMB'000
Advances from third parties	(i)	24,000	32,626
Payables relating to acquisition of a subsidiary	(ii)	–	30,000
Payables relating to drama series and films		88,055	24,618
Tax payable other than income tax		36,085	21,297
Accrued charges		19,351	17,865
Payables relating to purchases of property, plant and equipment		8,287	9,801
Other payables		17,817	14,454
		<u>193,595</u>	<u>150,661</u>

Note:

- (i) As at 31 December 2018, advances from third parties of RMB22,000,000 (2017: RMB30,000,000) are unsecured, interest bearing at 8% per annum and repayable within one year. Other advances from third parties are unsecured, interest-free and had no fixed repayment terms or repayable within one year.
- (ii) The balance represents the consideration payable for the acquisition of a subsidiary, which was settled in January 2018.

10 BANK LOANS

As at 31 December 2018, the bank loans were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	<u>180,500</u>	<u>201,250</u>

10 BANK LOANS (CONTINUED)

As at 31 December 2018, the bank loans were secured as follows:

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Bank loans			
– secured	(a)	90,000	113,250
– unsecured	(b)	90,500	88,000
		180,500	201,250

- (a) As at 31 December 2018, the banking facilities of the Group were secured by fixed bank deposits of RMB Nil (2017: USD3,500,000, equivalent to RMB22,870,000), machinery and equipment with an aggregate carrying value of RMB6,181,000 (2017: RMB6,449,000) and were guaranteed by the Disposal Group. Such banking facilities amounted to RMB90,000,000 (2017: RMB113,250,000). The facilities were utilised to the extent of RMB90,000,000 (2017: RMB113,250,000).
- (b) Included in unsecured bank loans at 31 December 2018, RMB77,500,000 (2017: RMB78,000,000) of the loans were guaranteed by the Disposal Group, and RMB20,000,000 (2017: RMB10,000,000) of the loans were guaranteed by the Company.

11 OTHER BORROWINGS

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

	2018 RMB'000	2017 RMB'000
Convertible bonds (<i>note 11(b)(i) and 11(b)(ii)</i>)		
– host liability component	253,898	387,968
– derivative liability component	172,611	1,363
	426,509	389,331
Bonds (<i>note 11(b)(iii)</i>)	214,316	–
	640,825	389,331
Amounts expected to be settled within one year	(434,480)	(159,659)
	206,345	229,672

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

11 OTHER BORROWINGS (CONTINUED)

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

(i) 2016 Convertible Bonds

On 14 October 2016, the Company issued convertible bonds with a face value of HKD200,000,000 and a maturity date on 14 October 2018, which is extendable to 14 October 2019 if agreed by the Company and the bondholders. The convertible bonds bear a nominal interest rate at 7% per annum and is guaranteed by Liu Zhihua, a shareholder of the Company.

In 25 June 2018, the Company, pursuant to the terms and conditions of the convertible bonds and as agreed into the bondholder, early redeemed the convertible bonds in full at their face value.

(ii) 2017 Convertible Bonds

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

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

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

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

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

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

On 28 February 2019, the Company and the Original Bondholder conditionally agreed to extend the maturity date of the remaining convertible bonds with an aggregate face value of HKD180,000,000 from 28 February 2019 to 28 February 2020, which is subject to, among other things, the approvals of the Company's shareholders at the extraordinary general meeting to be held on 8 April 2019.

(iii) 2018 Bonds

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

12 SHARE CAPITAL

Authorised and issued share capital are as follows:

	2018		2017	
	Number of shares	RMB'000	Number of shares	RMB'000
Authorised:				
Ordinary shares of USD0.01 each	<u>10,000,000,000</u>	<u>632,110</u>	<u>10,000,000,000</u>	<u>632,110</u>
Ordinary shares, issued and fully paid:				
At 1 January	1,045,749,656	66,559	1,045,749,656	66,559
Shares issuance (<i>note</i>)	<u>209,000,000</u>	<u>13,171</u>	<u>–</u>	<u>–</u>
At 31 December	<u>1,254,749,656</u>	<u>79,730</u>	<u>1,045,749,656</u>	<u>66,559</u>

Note: The Company allotted and issued 209,000,000 new ordinary shares of USD0.01 each at a price of HKD0.74 per ordinary share during the year. The net proceeds from the shares issuance were approximately HKD154,292,000 (equivalent to approximately RMB124,316,000), of which RMB13,171,000 and RMB111,145,000 are recognized in share capital and share premium respectively.

13 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of RMB Nil per ordinary share (2017: Nil)	–	–
Final dividend proposed after the end of the reporting period of RMB Nil per ordinary share (2017: Nil)	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2018 RMB'000	2017 RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year	<u>–</u>	<u>–</u>

14 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for		
– Purchase of property, plant and equipment	2,930	1,031
– Acquiring services relating to production of drama series and films	19,947	17,867
	<u>22,877</u>	<u>18,898</u>

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

	2018 RMB'000	2017 RMB'000
Within 1 year	<u>2,375</u>	<u>2,300</u>

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. These leases typically run for an initial period of 3 to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

15 MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions during the years ended 31 December 2018 and 2017 as follows.

- (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors and certain of the highest paid employees is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	4,528	5,663
Post-employment benefits	89	110
	<u>4,617</u>	<u>5,773</u>

15 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Financing arrangement

At 31 December 2018 and 2017, the Group had the following balances with related parties:

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Amount due from an associate	<i>(i)(ii)</i>	23,961	9,546

(i) Loss allowances of RMB2,918,000 (2017: RMB855,000) have been made in this respect of the amount due from an associate as at 31 December 2018.

(ii) The amount due from an associate is unsecured, interest-free and has no fixed term of repayment. The amount is included in "trade and other receivables" (note 8).

(c) Material transactions with related parties

During the years of 2018 and 2017, the Group has entered into the following material transactions with related parties:

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Drama series and films distribution income from an associate	<i>(i)</i>	3,937	479

(i) The directors of the Group are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

16 CONTINGENT LIABILITIES

As at 31 December 2018, the Group has issued guarantees in the aggregate amount of RMB20,000,000 in respect of loans made by banks to the Disposal Group. As at 31 December 2018, the Directors do not consider it probable that claims will be made against the Group under any of the guarantees. The maximum liability of the Group at 31 December 2018 under the guarantees issued is the outstanding amount of the loans of the Disposal Group of RMB20,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS OVERVIEW

According to the National Bureau of Statistics of the PRC, China's gross domestic product ("GDP"), based on comparable prices, reached approximately RMB90,030.9 billion in 2018, representing a growth of approximately 6.6% as compared to last year but the growth rate was 0.3 percentage point lower than that of the corresponding period last year. In 2018, the added-value contributed by the tertiary industry (service sector) amounted to approximately RMB46,957.5 billion, representing an increase of approximately 7.6% compared to that of the previous year, which was 1.0 percentage point higher than the average GDP growth rate and accounted for approximately 52.2% of the GDP, which is 0.6 percentage point higher than that of the corresponding period and approximately 11.5 percentage points higher than the secondary industry. The annual final spending contributed up to approximately 77.6% of the GDP in 2018, among which, service industry and consumer service played an important role in the GDP growth. In contrast, traditional industries faced various problems including destocking, structural adjustment and environmental cost pressure as a result of the deepening of the supply-side reform. Under the background of slowing growth of the domestic economy and uncertainties in the global economy, it is a tough road for the recovery of PRC textile industry in the short term.

In 2018, due to the escalation of the trade war between China and the United States, the largest consumer market for global mid to high quality textile products, China's export of high quality textile products was significantly and adversely affected. Even though the total export amount of Chinese textile products reached US\$119.1 billion in 2018, the fourth quarter recorded a decrease on both year-on-year and quarter-on-quarter levels. The overall trend of the industry and the confidence therein was not encouraging.

The Group was forced to be more focused and dedicated, and pay attention on fields of innovation, cost control and operations management in order to deal with such adverse environment and maintain steady development. The Company established Shanghai research and development center in 2018 to actively enhance the Group's core strength by promoting self-innovation and collaborative innovation. The Group also introduced the Amoeba operating model and optimized and automated its production capabilities in order to utilize the Group's differentiating positioning and expertise to increase the added value of its products and reduce its operating cost, to enhance the Group's operating and management capabilities. Meanwhile, the brand "Yinshilai" (銀仕來) owned by the Company was accredited as "China Famous Trade Mark" by the Trademark Office of National Intellectual Property Administration of the PRC during the Year. The management of the Company fulfilled their duties to maintain the normal operations of the Group's textile segment despite the harsh and difficult circumstances.

On the other hand, the television and film industry has also faced various challenges in 2018. For film industry, the growth rate of movie screens has experienced further slowdown. Although the growth rate of movie screens outran that of box office, the per screen revenue had continued to decrease. For the Year, the number of screens across the PRC reached approximately 60,000, but the per screen revenue was approximately RMB941,400 (net of service charge), representing a year-on-year decrease of approximately 8.7%. On the other hand, for the first time, the total box office in China hit RMB60 billion, with all the top three films (in terms of box office) being local films, the public's appraisal for the top 10 films (in terms of box office) having improved as compared to that of the last year, average box office per film recording significant increase and high-quality local film achieved outstanding performance. As for television dramas industry, regulations over such industry had been increasing stringent. The areas which saw the tightening of regulatory oversight include content value orientation, cost structure of content production, and taxation. At the same time, due to increasing sophistication of the audiences' appetite, which led to higher expectations for the quality of television dramas and resulted in the trend of premium quality content production, purchase demands of distributors had changed, which in turn forced the upstream content suppliers to make changes and the distributors themselves to devote more resources to the production of contents of their own. In the long term however, the increasingly stringent regulation will in turn benefit the healthy and robust development of the television and film industry. In addition, the year of 2018 was also viewed as the year of "Return of Realism", in which high quality films and television dramas of realistic topics and major themes became the main stream of the industry.

With stricter regulatory oversight over the industry and the developments in the area of government policies to support TV dramas which promote major themes, the management of the Group has leveraged on their accurate judgment based on their industry knowledge and forward-looking strategic insights and unleashed the Group's competitive strengths. Beijing Huasheng Taitong Media Investment Co., Ltd. ("**Huasheng Media**"), a subsidiary of the Group, demonstrated its competitive strengths in the investment and production of the orthodox historical dramas promoting major themes and positivity. During the Year, the drama "Chengzhongtang" (誠忠堂) (formerly known as "Qiao's Grand Courtyard – The Road Ahead" (喬家大院之光明之路)) which was invested and produced by Huasheng Media, premiered on CCTV-8 on 1 July 2018. "Chengzhongtang" is a sequel based on "Qiao's Grand Courtyard" (《喬家大院》), a historical drama television series produced by Huasheng Media in 2006, tells the story of Qiao Yingji (喬映霽), the fifth generation descendant of the Qiao family in Qiaojiabu, who restructured the Jinshang exchange shop to a bank, and revitalised the Shanxi official private bank and achieved currency unification by leveraging on the financial strength and goodwill of the Qiao family. In addition, "The New Big Head Son and The Little Head Father" (新大頭兒子和小頭爸爸) (episodes 1-100) and "The Family in That City" (那座城這家人) both invested and produced by Huasheng Media, premiered on CCTV-14, a children's channel, and Hunan Satellite TV Channel during prime time, respectively. "The New Big Head Son and The Little Head Father" was adapted from the classic domestic animation "The Big Head Son and The Little Head Father" (大頭兒子和小頭爸爸), and was highly popular among children after it was broadcasted. As a drama of special tribute for the 40th anniversary of the reform and opening-up of the People's Republic of China, "The Family in That City", set in Tangshan, a city suffered a devastating earthquake, tells stories about the joy, sorrow, parting and reunion of two families and three generations. "The Family in That City" won five awards, namely "Most Influential Award" (最具影響力獎), "Best Screenplay" (最佳編劇獎), "Best Actor" (最佳男主角獎), "Best Actress" (最佳女主角獎), and "Best New Actor" (最佳新銳演員獎) awards in 2018. Moreover, Huasheng Media had, in 2018, also invested and produced "Legend of Businessman in Hongjiang" (一代洪商), a large-scale television series, which finished shooting in January 2019. Currently, the television drama has entered the phase of post-production. "The Alarm of Xibaipo" (《西柏坡的警鐘》), an epic television drama based on revolution history, has passed the relevant reviewed and is waiting for premiering on CCTV.

Beijing Starrise Pictures Co., Ltd. (“**Starrise Pictures**”), a subsidiary of the Group, has certain advantages in area of internet dramas and diversified IP resources. In order to make the Group’s film and television business develop more comprehensively in the direction beyond promoting major themes and positivity and expand the Group’s film and television audiences base, in 2018, the Company completed the acquisition of the remaining 35% interests in its subsidiary Starrise Pictures (which became a wholly-owned subsidiary of the Company thereafter) to leverage on the resourcefulness of Starrise Pictures and the good future prospects of internet dramas and films to pave the way for better development of the Group in the future. Starrise Pictures made great achievements in the areas of films, internet dramas and internet films in 2018. In particular, Starrise Pictures had successfully invested seven films, ten internet films and six internet dramas. Among them, an urban emotional film “Us and Them” (後來的我們), a comedy film “Kill Mobile” (來電狂響), a mythical fantasy internet drama “The Heavenly Emperor 3 and 4” (御天神帝3、4), a youth love internet drama “Oh, My Honey!” (甜心軟糖), and an internet film “Mystic Kitchen 1” (如意廚房1), all of which received good market reaction. Youth nostalgic film “Once Upon A Time In The Northeast (東北往事) will be broadcasted on 1 May 2019. Youth nostalgic film “Here Comes Dashan” (大山來了), a black humor film “In Broad Daylight” (光天化日), internet film “Mystic Kitchen 2” (如意廚房2), “Horror Blockbuster” (恐不大片), “Alien Monster: Survival in the Wild” (異星怪獸之荒野求生), “Bosom Friend” (高山流水) and “Monster Hunters” (鎮魂歌) and an internet drama “Legend of Taotie” (饕餮記) have all finished shooting and are currently under post-production stage. Internet film “Mystery Case in Ying Dynasty” (大應奇案) and internet drama “The Counterattack of An Ordinary Man” (匹夫的逆襲) are both at the stage of script development and preparation.

Following the management strategy of establishing presence at all levels of the film and television industry value chain, Beijing Starwise Culture Media Co., Ltd. (“**Beijing Starwise**”), a wholly-owned subsidiary of the Group, gradually commenced the business of implanted advertisement and film and television drama promotion and distribution. In addition, Beijing Starwise also focuses on the development of IP and copyright in order to realize the long-term value of IPs. In the field of film and television media investment and production, Beijing Starwise is committed to cooperating with top teams in the industry, accumulating resources and striving for steady success, while exploring investment directions through market data analysis to seek innovation to create high-quality content. In 2018, Beijing Starwise invested in “Wandering Earth” (流浪地球), the first phenomenal science fiction film in China. It was released on 5 February 2019, the first day of the Lunar New Year. Since its release, the film has made remarkable achievements in both reputation and box office. As of 29 March 2019, the box office has exceeded RMB4.6 billion. Wandering Earth ushered in a new era of Chinese science fiction movies. In addition, an internet swordsman action film “The Grandmaster of Kungfu” (霍元甲之精武天下), which was invested by Beijing Starwise, was launched on Youku platform. Internet dramas such as “Soulmate” (七月與安生) and “Lipstick Princess” (唯美貌不可辜負), animated film “GO!REX” (你好，霸王龍), internet film “Trance” (迷幻境地) and a homemade drama of Iqiyi “The Lion’s Reflection Of Laying Cat” (賴貓的獅子倒影) finished shooting and are currently under post-production stage. Internet film “How to Get Super Powers” (淚奔吧無用超能力), and internet dramas “Platina Data” (白金數據), “Bulletproof Teacher” (穿越火線：防彈教師) and “Back to the dynasty” (午門囡事), all being valuable IP projects, are also in the stage of script development and early investment.

At present, as the media business platforms of the Group, Huasheng Media, Starrise Pictures and Beijing Starwise, each has its own focus and complementary advantages, and are contributing to the expansion of the Group's film, television and media business at multiple levels. The improved integration of the three business platforms is conducive to the sharing of broadcasting channels and the continuous expansion of the audience base of the Group's film and television business, which is in the interests of the shareholders of the Company as a whole.

During the Year, the Group's revenue from continuing operations was approximately RMB961.4 million, which represented an increase of approximately RMB472.2 million as compared to that of the previous year, which was mainly due to the increase in the Group's business; loss attributable to equity shareholders of the Company was approximately RMB144.7 million, which represented an increase in losses of approximately RMB63.6 million as compared to last year's loss attributable to equity shareholders. As at 31 December 2018, the average closing price of the company in the first five days was higher than the conversion price of the Group's convertible bonds, which led to the losses on change in fair value recognized in profit or loss of approximately RMB176.5 million in relation to the derivatives embedded in convertible bonds issued by the Group. The losses offset the increase in recurring profit from operations.

FINANCIAL REVIEW

Turnover, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin of its major business categories for the years ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December					
	2018			2017		
	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %
Textile business	609,043	79,808	13.1%	412,029	55,089	13.4%
Film and Television business	352,326	130,430	37.0%	77,129	15,930	20.7%
Total	<u>961,369</u>	<u>210,238</u>	<u>21.9%</u>	<u>489,158</u>	<u>71,019</u>	<u>14.5%</u>

The gross profit margin of the Group increased by approximately 7.4 percentage points, from approximately 14.5% for the previous year to approximately 21.9% for the Year. The increase of overall gross profit margin was mainly due to the increase in film and television's gross profit margin. In the year of 2018, the unit price of the quality orthodox dramas broadcasted by the Group have increased significantly, resulted in an increase in revenue, while the gross profit margin of film and television business increased by 16.3 percentage points as compared to the previous year.

Other net losses

Components of other net losses of the Group mainly comprised change in fair value of derivatives embedded in convertible bonds, net gain on disposal of property, plant and equipment and government grants. The total amount of other net losses for the Period Under Review was approximately RMB172.6 million representing an increase of approximately RMB165.9 million as compared to that of the pervious year. This was mainly due to the losses of approximately RMB176.6 million arising from the change in fair value of derivatives embedded in convertible bonds during the year ended 31 December 2018.

Distribution costs

For the year ended 31 December 2018, total distribution costs of the Group increased by approximately RMB7.7 million to approximately RMB25.8 million as compared to that of the previous year. Such increase was mainly due to the increase in staff cost, marketing expenses and promotion expenses of films and television dramas of the Group during the Year when compared to that of the previous year.

Administrative expenses

For the year ended 31 December 2018, the administrative expenses of the Group was approximately RMB78.3 million, representing an increase of approximately 3.7% when compared to the administrative expenses of approximately RMB75.5 million in the previous year. The increase was mainly due to the expenditures related to the acquisition of media business, the forming of new companies, the increase of staff cost and rental expense for the Group's film and television business.

Net finance costs

During the year ended 31 December 2018, the net finance cost of the Group were approximately RMB65.5 million, representing a decrease of approximately RMB8.2 million as compared to the net finance cost of approximately RMB73.7million in 2017, which was mainly due to the increase in interest income from the Group's bank deposits and other receivables. For the year ended 31 December 2018, the finance cost of the Group was approximately RMB77.9 million, which was stable as compared to approximately RMB78.8 million in 2017. The finance income was approximately RMB12.5 million, representing a increase of approximately RMB7.5 million as compared to approximately RMB5.0 million in 2017, which was mainly due to the increase in interest income from the Group's bank deposits and other receivables in 2018.

Taxation

Taxation of the Group was increased by approximately 237.8% from approximately RMB3.7 million in 2017 to approximately RMB12.5 million during the Period under Review. This was mainly due to the increase of taxable income.

Loss attributable to the equity shareholders of the Company

For the year ended 31 December 2018, the loss attributable to the equity shareholders of the Company was approximately RMB144.7 million, representing an increase of approximately 78.4%, from approximately RMB81.1 million in 2017. It was mainly due to the losses on change in fair value recognized in profit or loss of approximately RMB176.5 million in relation to the derivatives embedded in convertible bonds, representing a decrease of approximately RMB232.8 million comparing to the gain on change in the fair value of the embedded derivatives in convertible bonds for the year ended 31 December 2017 of approximately RMB56.3 million, which offset the increase in recurring profit from operations for the year and led to the loss attributable to equity shareholders.

Liquidity and financial resources

As at 31 December 2018, cash and cash equivalents of the Group were approximately RMB284.7 million, representing an increase of approximately 83.0% from approximately RMB155.6 million as at 31 December 2017. This was mainly due to the increase in bank deposits of the Company as a result of the issuance of the new Shares in the Year.

For the year ended 31 December 2018, the Group's net cash generated from operating activities was approximately RMB43.2 million (2017: net cash used in operating activities of approximately RMB162.0 million), net cash used in investing activities was approximately RMB27.9 million (2017: approximately RMB91.6 million) and net cash generated from financing activities was approximately RMB94.7 million (2017: net cash used in financing activities was approximately RMB240.4 million). During the Year, cash and cash equivalents of the Group increased by approximately RMB110.0 million (2017: decreased by RMB13.2 million). The Board believes that the Group will maintain a sound and stable financial position, and will maintain sufficient liquidity and financial resources for the Group's business needs.

The Group's customers, who have had long-term business relationship with the Group and have well settlement history and sound reputation, have been waived the requirement for deposit payment and granted a credit period typically ranging from 30 to 180 days pursuant to the payment terms of the purchase or processing orders. The length of credit period depends on various factors such as financial strength, size of the business and settlement history of those customers. For the year ended 31 December 2018, the average trade receivables (including bills receivable) turnover period of the Group decreased to approximately 69 days from approximately 89 days for the year ended 31 December 2017. For the year ended 31 December 2018, the revenue of the Group increased significantly and the proportion of revenue growth was greater than that of the increase in account receivables, which led to a decreased in turnover period of the average trade receivables.

For the year ended 31 December 2018, inventory turnover period of the Group decreased to 94 days from 129 days for the previous year. This was mainly because of the decrease in average inventories and the increase in sales costs of the Group. In particular, the Group's finished goods increased to approximately RMB52.3 million as at 31 December 2018 from approximately RMB44.2 million as at 31 December 2017 (the inventory of the textile business).

For the year ended 31 December 2018, drama series and films turnover period of the Group decreased to 363 days from 977 days in the previous year. This was mainly because of the increase in the cost of drama series and films to approximately RMB221.9 million as at December 2018 from approximately RMB61.2 million as at 31 December 2017.

As at 31 December 2018, the Group's bank borrowings and obligations under finance lease of approximately RMB204.7 million (2017: approximately RMB191.2 million) bore fixed interest rate at 4.4%-5.7% (2017: 4.4%) per annum. As at 31 December 2018, the Group did not have bank borrowings. (2017: approximately RMB10.0 million bore floating interest rate at 5.7%) bore floating interest rate. The Group's debt associated with convertible bonds was approximately RMB253.9 million as at 31 December 2018 (2017: approximately RMB388.0 million), with annual effective interest rate of 22% (2017: 18.9%-22%). As at 31 December 2018, the Group's bonds was approximately of RMB214.3 million (2017: Nil) with annual effective interest rate of 6% (2017: Nil).

Capital structure

The Group actively and regularly reviews and manages its capital structure to maintain a balance between achieving shareholders returns and prudent level of borrowings and to ensure a sound capital position, and shall from time to time make adjustments to the Group's capital structure in light of changes in economic conditions.

As at 31 December 2018, the debts of the Group were mainly bank borrowings, convertible bonds, bonds and obligations under finance leases with a total amount of approximately RMB845.5 million (2017: approximately RMB590.6 million). As at 31 December 2018, cash and cash equivalents was approximately RMB284.7 million (2017: approximately RMB155.6 million). As at 31 December 2018, the gearing ratio was approximately 58.8% (2017: approximately 42.7%), which was calculated by dividing total debt (i.e. bank borrowings, convertible bonds, bonds and obligations under finance lease, after deducting cash and cash equivalents) by total equity.

As at 31 December 2018, the debts of the Group that will become due within a year were approximately RMB627.2 million (2017: RMB360.9 million).

As at 31 December 2018, the Group's cash and cash equivalents was mainly held in Renminbi, US dollars, HK dollars, of which, approximately RMB96.0 million (2017: RMB58.3 million) or 33.7% (2017: 37.5%) of the cash and cash equivalents was held in Renminbi.

Furthermore, the Group had finance lease liabilities of approximately RMB24.2 million as at 31 December 2018 (2017: Nil) bearing floating interest rates at 5.7% (2017: Nil). The carrying amounts of bank loans were denominated in RMB. For the year ended 31 December 2018, no financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments.

Capital commitments

Save as disclosed in the note 14, the Group did not have any other significant capital commitments as at 31 December 2018 (2017: Nil).

Employee and remuneration policy

As at 31 December 2018, the Group had a total of approximately 1,704 employees (2017: 1,766), the decrease in the number of staff as compared to that of the previous year was mainly because the Group strived to improve the efficiency of its operations by downsizing staff in its textile segment according to the operating conditions.

For the year ended 31 December 2018, labour costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB102.5 million (2017: approximately RMB90.8 million). The increase of labour costs was mainly because of the increase in staff remuneration.

The Group continues to provide training to staff members to improve their operational skills. Meanwhile, the Group enhanced the work efficiency and average income of the staff through post-consolidation, process reorganization and improvement of working and living environment of the staff. The remuneration of the employees of the Group was subject to their work performances and experiences, as well as the relevant industry practices. The management of the Group will also periodically review the Group's remuneration policy and the details thereof.

Exposure to foreign exchange risk

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

The Group did not use any foreign currency derivatives to hedge against the exposure in foreign exchange during the Year.

Contingent liabilities

Save as disclosed in note 16, the Group did not have any contingent liability as at 31 December 2018 (2017: Nil).

Charges on assets

Save as the pledged bank deposits as presented in the consolidated statement of financial position, the Group pledged its machinery and equipment with net book value of approximately RMB6.2 million (2017: RMB6.4 million) to banks as securities for the bank loans as at 31 December 2018.

Significant investments held

The Group did not hold any significant investment in equity interest in any company during the year ended 31 December 2018.

Future plans for material investments and investments in capital assets

The Group did not have any plans for material investments or investments in capital assets.

Acquisitions and disposals of subsidiaries and affiliated companies

For the year ended 31 December 2018, the Company did not conduct any acquisition or disposal of subsidiaries and affiliated companies.

EVENTS AFTER THE REPORTING PERIOD

On 25 February 2019, the Original Bondholder transferred part of the convertible bonds with an aggregate principal amount to HK\$120,000,000 (the “**Transferred Bonds**”), which were convertible into 162,162,162 Shares at the conversion price of HK\$0.74 per conversion share to BeiTai. On the same date, BeiTai exercised the conversion rights to convert all of the Transferred Bonds.

On 28 February 2019, the Company and the Original Bondholder conditionally agreed to extend the maturity date of the remaining convertible bonds with an aggregate principal amount of HK\$180,000,000 (the “**Remaining Bonds**”) from 28 February 2019 to 28 February 2020, which is subject to, among other things, the approval of the Company’s shareholders at the extraordinary general meeting of the Company to be held on 8 April 2019. Please make reference to the announcements dated 25 February 2019, 28 February 2019, and 1 March 2019 and the circular dated 20 March 2019 for further details.

Set out below is a breakdown of the shareholding interests in the Company of the Shareholders (i) as at the date of this report; and (ii) immediately after the conversion of the Remaining Bonds assuming the conversion rights under the Remaining Bonds are exercised in full at the conversion price of HK\$0.74 per conversion share:

	As at the date of this report		Immediately after the full conversion of the Remaining Bonds	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Excel Orient Limited <i>(Note 1)</i>	273,609,836	19.31	273,609,836	16.48
Emerges Ventures Limited <i>(Note 2)</i>	209,000,000	14.75	209,000,000	12.59
Aim Right Ventures Limited <i>(Note 3)</i>	202,472,656	14.29	202,472,656	12.20
BeiTai Investment LP	162,162,162	11.44	162,162,162	9.77
He Han	14,008,000	0.99	14,008,000	0.84
Other public Shareholders	555,659,164	39.22	555,659,164	33.47
Original Bondholder	—	—	243,243,243	14.65
Total	<u>1,416,911,818</u>	<u>100</u>	<u>1,660,155,061</u>	<u>100</u>

Notes:

- 273,609,836 Shares are held in the name of Excel Orient Limited, a limited liability company incorporated in the BVI wholly owned by Mr. Liu Dong.
- 209,000,000 Shares are held in the name of Emerges Ventures Limited, a limited liability company incorporated in the BVI wholly owned by Mr. Jin Peng.
- 202,472,656 Shares are held in the name of Aim Right Ventures Limited, a limited liability company incorporated in the BVI wholly owned by Mr. Liu Zhihua.

OUTLOOK

According to the preliminary statistics of National Film Bureau of the PRC, the box office in China reached RMB5.84 billion and the number of people watching movies reached 130 million during the 2019 Lunar New Year holiday, which started from 5 February 2019 to 10 February 2019. In particular, the box office on 5 February 2019, the first day of the Lunar New Year Holidays, alone reached RMB1.443 billion, which exceeded the highest single-day box office of RMB1.286 billion recorded on the first day of the Lunar New Year Holiday in 2018, as well as breaking the world record of single-day box office of a specific market. According to the Chinese Movie Audience Satisfaction Survey published by China Film Archive, the audience satisfaction level on the films published during the 2019 Lunar New Year holiday scored 83.9, representing a “satisfaction” rating, which was the highest score recorded for the films published during the Lunar New Year holiday since the survey was launched in 2015. Among them, China’s first hard scientific movie “Wandering Earth”, which was invested by the Group, became the champion of the 2019 Lunar New Year holiday and February 2019 box office. As of 29 March 2019, it has achieved a box office result of RMB4.6 billion, becoming the second blockbuster movie in the history of Chinese film industry. The film “Wandering Earth” has demonstrated the market law of “Quality is King” (質量為王), and also brought confidence to those who pursued high quality in the industry. Although a series of policies were introduced by the authorities to strengthen the standardized management of the film industry in 2018, the film, television and media industry, as an important pillar of the cultural industries, still shows a promising market outlook based on the box office performance during the 2019 Lunar New Year holiday, and the refined films and TV series that are still being sought after by the market.

Going forward, the Group will actively promote the development of its film and television media business. In 2019, the Group will first implement the core strategy of full utilization of the platform of its subsidiary, Huasheng Media, to create quality orthodox dramas with positive themes. Secondly, the Group will leverage on the advantages of its other two business platforms, namely that of Starrise Pictures and Beijing Starwise, respectively, in the areas of Internet dramas, Internet movies, IP resources reserves and IP and copyright development to capture the market share of Internet dramas and Internet movies, and continue the diversification of the Group’s film and television media business. The Group will also make efforts to seek opportunities in the film market, and create more profitable opportunities and profitable income sources by co-investing in large scale film productions, in order to increase the Group’s visibility and revenue. In 2019, the Group will pay close attention to the developments in the government policies relating to the film and television media industry, make full use of its existing film and television resources, promptly adjust the relevant annual investment and shooting plans, and actively invest in the shooting of quality dramas to seek for better return for its shareholders and to realize the Group’s annual development objectives.

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

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
1	Once Upon A Time In The Northeast (東北往事)	Youth nostalgic film	In March 2017	Will be broadcasted on May 2019
2	The Alarm of Xibaipo (西柏坡的警鐘)	Epic television drama based on revolution history	In May 2017	Submitted for screening
3	GO!REX (你好霸王龍)	Animated movie	In September 2017	Under post-production
4	Horror Blockbuster (恐不大片)	Horror film	In November 2017	Under post-production
5	Here Comes Dashan (大山來了)	Youth nostalgic film	In December 2017	Under post-production
6	Soulmate (七月與安生)	Internet dramas	In May 2018	Under post-production
7	Mystic Kitchen 1 (如意廚房1)	Internet movie	In June 2018	Broadcasted on February 2019
8	Mystic Kitchen 2 (如意廚房2)	Internet movie	In June 2018	Under post-production
9	In Broad Daylight (光天化日)	Theatrical film	In June 2018	Under post-production
10	The Grandmaster of Kungfu (霍元甲之精武天下)	Internet movie	In July 2018	Broadcasted on January 2019
11	Bosom Friend (高山流水)	Internet movie	In July 2018	Under post-production
12	Beauty is the Most Important (唯美貌不可辜負)	Internet dramas	In August 2018	Under post-production
13	Alien Monster: Survival in the Wild (異星怪獸之荒野求生)	Internet movie	In August 2018	Under post-production

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
14	The Lion's Reflection of Laying Cat (賴貓的獅子倒影)	Internet dramas	In September 2018	Under post-production
15	Legend of Businessman in Hongjiang (一代洪商)	Historical story drama	In October 2018	Under post-production
16	The Tale of the Mythical Ferocious Animal (饕餮記)	Internet dramas	In October 2018	Under post-production
17	Trance (迷幻境地)	Internet movie	In November 2018	Under post-production
18	Monster Hunters (鎮魂歌)	Internet movie	In December 2018	Under post-production
19	Ninja Mission (忍術之八岐大蛇)	Internet movie	In January 2019	Under post-production
20	The 101-200 episodes of The New Big Head Son and The Little Head Father (新大頭兒子小頭爸爸 101-200集)	Situation comedy	In February 2019	Under filming
21	Mystery Case in Ying Dynasty (大應奇案)	Internet movie	The first half of 2019	Preparing script
22	Spy (叛諜)	Internet movie	The first half of 2019	Preparing script
23	The Past Days Spent Together (一起混過的日子)	Internet dramas	The second half of 2019	Preparing script
24	The Counterattack of An Ordinary Man (匹夫的逆襲)	Internet dramas	The second half of 2019	Preparing script
25	Sword Maker (煉劍)	Internet movie	The second half of 2019	Preparing script
26	Yangtze River Bridge (長江大橋)	Realistic drama	The second half of 2019	Preparing script

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
27	Blood Pledge for Thousands of Years (血盟千年)	Historical story drama	The second half of 2019	Preparing script
28	Tempering of King Gelsall (格薩爾王之磨煉)	Animation film	The second half of 2019	Preparing script
29	How to Get Super Powers (淚奔吧 無用超能力)	Theatrical film	The second half of 2019	Preparing script
30	Platinum Data (白金數據)	Internet dramas	The second half of 2019	Preparing script
31	Bulletproof Teacher (穿越火線)	Internet dramas	The second half of 2019	Preparing script
32	Outlaws of the Marsh: Wu Song (武松決戰十字坡)	Internet movie	The second half of 2019	Preparing script
33	Yang Jian: God of War (少年楊戩)	Internet movie	The second half of 2019	Preparing script

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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

For the year ended to 31 December 2018, the Company had adopted and complied with the code provisions (the “**Code Provisions**”) set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

MODEL CODE FOR SECURITIES TRANSACTION BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standards of dealing as set out in the Model Code during the Year.

AUDIT COMMITTEE

The Audit Committee established by the Board has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financing reporting matters with the senior management. The Audit Committee was satisfied that the consolidated financial statements of the Group for the year ended 31 December 2018 were prepared in accordance with applicable accounting standards and presented fairly the financial position and results of the Group for the Year.

FINAL DIVIDEND

The year of 2019 is essential for the development of the Company. The Group’s media business, in its pivotal development and consolidation, will need further investments. Therefore, the Board does not recommend the payment of a final dividend for the year ended 31 December 2018. At this point, the Board is committed to the further development of the Company in the coming years, in order to get a better return for the shareholders of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “**AGM**”) will be held on Thursday, 30 May 2019. Shareholders should refer to the details regarding the AGM in the circular of the Company to be dispatched in April 2019 and the notice of the AGM and form of proxy accompanying thereto.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on Friday, 24 May 2019.

SCOPE OF WORK OF THE AUDITORS

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been compared by the Group's auditor KPMG, Certified Public Accountants, against the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2018 and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF THIS ANNOUNCEMENT AND ANNUAL REPORT

This announcement and the annual report of the Company for the Year (the "Annual Report") will be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.starrise.cn>) and the Annual Report will be dispatched to the shareholders within the time specified under the Listing Rules.

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

Shandong, the PRC
29 March 2019

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

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