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CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00343)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

INTERIM RESULTS

The Board of Directors (the "Directors") of Culturecom Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2018 together with the comparative figures for the corresponding period of 2017 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		Six months ended 30 September	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**8,335**	6,631
Cost of sales		**(3,185)**	(32,712)
Gross profit (loss)		**5,150**	(26,081)
Other income	*4a*	**998**	108
Other gains and losses, net	*4b*	**(2,519)**	345
Other operating expenses		**(10,129)**	(9,972)
Salaries and allowances		**(4,674)**	(6,817)
Operating lease rentals in respect of rental premises		**(3,020)**	(4,049)
Depreciation expenses		**(185)**	(544)
Share of loss of an associate		**(430)**	—
Impairment loss on film right	*11*	**—**	(1,647)
Loss before tax		**(14,809)**	(48,657)
Income tax (expense) credit	*6*	**(58)**	14
Loss for the period	*7*	**(14,867)**	(48,643)

	NOTES	Six months ended 30 September **2018** ***HK$'000*** **(unaudited)**	2017 *HK$'000* (unaudited)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(844)**	146
Reclassification of exchange loss on disposal of foreign operation	*14*	**—**	854
Other comprehensive (expense) income for the period		**(844)**	1,000
Total comprehensive expense for the period		**(15,711)**	(47,643)
Loss for the period attributable to:			
Owners of the Company		**(13,622)**	(46,198)
Non-controlling interests		**(1,245)**	(2,445)
		(14,867)	(48,643)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(14,499)**	(44,992)
Non-controlling interests		**(1,212)**	(2,651)
		(15,711)	(47,643)
LOSS PER SHARE	*9*		
Basic (HK cents)		**(1.0)**	(3.3)
Diluted (HK cents)		**N/A**	(3.3)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2018

	NOTES	30 September 2018 HK$'000 (unaudited)	31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**967**	805
Interest in an associate		**713**	1,143
Intangible assets	*10*	**3,067**	1,385
Goodwill	*15*	**21,083**	—
Film right	*11*	**1,350**	1,620
Deposits and prepayments	*12*	**555**	555
		27,735	5,508
Current assets			
Inventories		**38,522**	38,548
Trade receivables	*12*	**5,871**	23,167
Other receivables, deposits and prepayments	*12*	**6,792**	7,821
Tax recoverable		**871**	871
Held for trading investments		**6,163**	7,080
Bank balances and cash		**244,019**	238,393
		302,238	315,880
Current liabilities			
Trade payables	*13*	**734**	437
Other payables and accrued charges		**9,200**	9,571
Contract liabilities		**1,097**	—
		11,031	10,008
Net current assets		**291,207**	305,872
Total assets less current liabilities		**318,942**	311,380
Non-current liabilities			
Deferred tax liability		**756**	698
Contract liabilities		**1,557**	—
		2,313	698
Net assets		**316,629**	310,682
Capital and reserves			
Share capital		**13,907**	13,907
Share premium and reserves		**287,735**	302,234
Equity attributable to owners of the Company		**301,642**	316,141
Non-controlling interests		**14,987**	(5,459)
Total equity		**316,629**	310,682

1. BASIS OF PREPARATION

The condensed consolidated financial statements of Culturecom Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the current interim period, the Group has entered into a capital injection agreement with an independent third party for acquisition of a subsidiary engaged in digital marketing business. The acquisition is completed on 31 August 2018 and the new digital marketing business is regarded as a new business segment of the Group. Further details are set out in Note 15.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as set out in the condensed consolidated financial statements of the Group for the six months ended 30 September 2018.

3. REVENUE

Revenue represents the net amount received and receivable for goods sold and service provided by the Group, after returns, trade discounts and allowances, and is analysed as follows:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Publishing and intellectual properties licensing	**4,801**	4,315
Online and social business	**796**	1,160
Digital marketing	**986**	—
Retailing and wholesales	**26**	—
Catering	**1,726**	1,156
	8,335	6,631

Disaggregation of revenue

	Six months ended 30 September 2018					
	Publishing and intellectual properties licensing	**Online and social business**	**Digital marketing**	**Retailing and wholesales**	**Catering**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
Time of revenue recognised:						
At a point of time						
— Comic book sales	**2,492**	—	—	—	—	**2,492**
— Royalty income from intellectual properties licensing	**1,708**	—	—	—	—	**1,708**
— Operation of digital cinema	—	**796**	—	—	—	**796**
— Digital marketing revenue	—	—	**986**	—	—	**986**
— Sales of wine	—	—	—	**26**	—	**26**
— Catering services	—	—	—	—	**1,726**	**1,726**
Overtime						
— Royalty income from intellectual properties licensing	**601**	—	—	—	—	**601**
Total	**4,801**	**796**	**986**	**26**	**1,726**	**8,335**

	Six months ended 30 September 2018					
	Publishing and intellectual properties licensing *HK$'000* **(unaudited)**	**Online and social business** *HK$'000* **(unaudited)**	**Digital marketing** *HK$'000* **(unaudited)**	**Retailing and wholesales** *HK$'000* **(unaudited)**	**Catering** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
Geographical markets:						
Hong Kong (place of domicile)	**4,801**	—	—	**26**	—	**4,827**
The People Republic of China (the "PRC")	—	**796**	**986**	—	—	**1,782**
Macau	—	—	—	—	**1,726**	**1,726**
Total	**4,801**	**796**	**986**	**26**	**1,726**	**8,335**

4a. OTHER INCOME

	Six months ended 30 September	
	2018 *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Interest income	**130**	55
Sundry income	**868**	53
	998	108

4b. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2018 *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Net foreign exchange (loss) gain	**(1,602)**	733
Loss on fair value change of held for trading investments	**(917)**	(140)
Impairment loss on trade receivables	—	(421)
Loss on disposal of subsidiaries *(Note 14)*	—	(848)
Reversal of impairment on other receivables *(Note)*	—	1,021
	(2,519)	345

Note: During the six months period ended 30 September 2017, reversal of impairment loss of HK$1,021,000 (six months ended 30 September 2018: Nil) on other receivables was recognised in profit or loss upon recovery of the amount.

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the Group's chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

— Publishing and intellectual properties licensing: publication of comic books and royalty income from licensing intellectual properties of comics.

— Online and social business: operating online social platform by providing music and online games, design and develop multi-media applications, operation of digital cinema and film production.

— Digital marketing: providing digital marketing and communication, intellectual property digitalisation and agency of intellectual property services in the PRC.

— Retailing and wholesales: retailing of wine and mobile phones in Hong Kong and Macau.

— Catering: catering services in Macau.

All transactions between different operating segments are charged at prevailing market rates.

During the period ended 30 September 2018, the Group commenced the business in digital marketing through acquisition of a subsidiary as detailed in Note 15.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments.

For the period ended 30 September 2018 (unaudited)

	Publishing and intellectual properties licensing *HK$'000*	**Online and social business** *HK$'000*	**Digital marketing** *HK$'000*	**Retailing and wholesales** *HK$'000*	**Catering** *HK$'000*	**Consolidated** *HK$'000*
Revenue						
External sales	**4,801**	**796**	**986**	**26**	**1,726**	**8,335**
Segments results	**385**	**(5,197)**	**384**	**(544)**	**(625)**	**(5,597)**
Unallocated expenses						**(9,832)**
Unallocated income						**620**
Loss before tax						**(14,809)**

For the period ended 30 September 2017 (unaudited)

	Publishing and intellectual properties licensing *HK$'000*	Online and social business *HK$'000*	Retailing and wholesales *HK$'000*	Catering *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	4,315	1,160	—	1,156	6,631
Segment results	10	(36,925)	(1,021)	(1,141)	(39,077)
Unallocated expenses					(9,625)
Unallocated income					45
Loss before tax					(48,657)

Segment result represents the profit (loss) before tax earned (incurred) by each segment without the allocation of incomes or expenses resulted from loss on fair value changes of held for trading investments, share of loss of an associate, loss on disposal of subsidiaries and unallocated corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

As the Group's assets and liabilities are only reviewed by the CODM as a whole and hence no analysis of the Group's assets and liabilities by operating segments is disclosed.

6. INCOME TAX (EXPENSE) CREDIT

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda for both periods.

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for both periods. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2018 ***HK$'000*** **(unaudited)**	2017 *HK$'000* (unaudited)
Income tax (expense) credit comprises:		
Deferred tax		
— Deferred tax (expense) credit	**(58)**	14
Income tax (expense) credit	**(58)**	14

7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following items:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Audit fee	**984**	1,211
Amortisation of film right (included in cost of sales) *(Note 11)*	**270**	29,405
Staff costs, including directors' emoluments	**6,805**	8,775
Depreciation of property, plant and equipment	**185**	544
Cost incurred for online platform maintenance *(Note a)*	**—**	950
Research and development expenses *(Note b)*	**3,200**	2,400
Consultancy and other professional fee	**933**	603

Note:

(a) During the six months period ended 30 September 2017, expenditures incurred mainly for platform improvement and maintenance in relation to game and mobile applications developed by the Group, amounting approximately to HK$950,000 (six months ended 30 September 2018: Nil) in aggregate, are expensed when they are incurred for maintaining the operation of the platform and are included in cost of sales.

(b) The amount mainly represented research and development expenses incurred for the development of multi-media applications during both periods.

8. DIVIDEND

No dividend was paid, declared or proposed during both interim periods. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

9. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	**(13,622)**	(46,198)

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of shares for the purposes of basic and diluted loss per share	**1,390,657**	1,390,657

For the period ended 30 September 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding warrants and share options since their assumed exercise would result in a decrease in loss per share.

No diluted loss per share for the period ended 30 September 2018 was presented as there were no potential ordinary shares in issue for the period ended 30 September 2018.

10. INTANGIBLE ASSETS

During the six months ended 30 September 2018, the Group acquired intangible assets mainly comprising of software amounted to approximately HK$1,626,000 arising from the acquisition of a subsidiary and included in prepayments at the date of acquisition as set out in Note 15. (six months ended 30 September 2017: Nil).

11. FILM RIGHT

Film right of HK$1,350,000 (31 March 2018: HK$1,620,000) represented interest in film right jointly controlled by the Group and by an independent third party in the PRC. During the current interim period, the Group recognised amortisation of HK$270,000 (six months ended 30 September 2017: HK$29,405,000) on the completion of film's theatrical release or internet release in the PRC (included in cost of sales).

Due to unsatisfactory result of its box office and the uncertain future return of the film, the directors of the Company conducted a review on the recoverable amounts of the film right as at 30 September 2017 have been determined on the basis of their value in use which was determined based on the present value of the estimated future cash flows expected to be generated by the film right. During the period ended 30 September 2017, an impairment loss of HK$1,647,000 has been recognised in the profit or loss. During the period ended 30 September 2018, no impairment loss has been recognised in the profit or loss.

12. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

The Group allows the general credit period of ranges from 0 to 90 days to customers of publishing and intellectual properties licensing, retailing and wholesales and digital marketing segments. The following is the aged analysis of trade receivables net of allowance for impairment presented based on invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	30 September 2018	31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 — 60 days	**3,863**	22,203
61 — 90 days	**621**	224
91 — 180 days	**1,382**	670
Over 180 days	**5**	70
	5,871	23,167

Trade receivables are interest-free and unsecured.

(b) Other receivables, deposits and prepayments

	30 September 2018	31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Other receivables (net of allowance of impairment)	**4,712**	5,583
Deposits and prepayments	**2,635**	2,793
Total other receivables, deposits and prepayments	**7,347**	8,376
Less: Amounts that will be settled or utilised within one year	**(6,792)**	(7,821)
Amount that will be utilised for more than one year	**555**	555

13. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting period.

	30 September 2018	31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 — 60 days	**532**	406
61 — 90 days	**152**	—
Over 90 days	**50**	31
	734	437

The average credit period on purchases of goods ranges from 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

14. DISPOSAL OF SUBSIDIARIES

Disposal of Success Dynasty Limited ("Success Dynasty") and its subsidiary

On 18 September 2017, the Group entered into an agreement to dispose of its wholly owned subsidiary, Success Dynasty Limited, and its subsidiary (collectively referred to as the "Success Group") to an independent third party, for a cash consideration of US$250,000 (equivalent to approximately HK$1,950,000). Success Dynasty's principal activity was investment holding with a subsidiary engaged in crude oil exploration service business. The transaction was completed on 18 September 2017, the date at which the control of Success Group has been passed to the independent third party.

The Group's shares of net assets of Success Group at the date of disposal and the effect of disposal were as follows:

	HK$'000
Consideration receivable:	
Other receivable (included in other receivables)	1,950
Analysis of assets over which control was lost:	
Property, plant and equipment	39
Bank balances and cash	1,905
Net assets disposed of	1,944

	HK$'000
Loss on disposal of subsidiaries:	
Consideration receivable	1,950
Net assets disposed of	(1,944)
Reclassification of exchange loss on disposal	(854)
Loss on disposal	(848)
Net cash outflow arising on disposal:	
Less: Bank balances and cash disposed of	(1,905)

The Success Group contributed loss of HK$737,000 to the Group during the period ended 30 September 2017. No tax charge or credit arose on loss on the disposal.

15. ACQUISITION OF A SUBSIDIARY

During the interim period, Culturecom (Hong Kong) Limited, a wholly-owned indirect subsidiary of the Group, acquired 55% equity interest by contributing capital in form of cash of RMB40,000,000 (approximately HK$47,555,000) in Eqmen Technology Limited, a company established in the PRC. The transaction was completed on 31 August 2018 and accounted for an acquisition of business, namely the digital marketing business, using the acquisition method. Eqmen Technology Limited is principally engaged in the digital marketing business in the PRC and was acquired with the objective of diversifying the Group's business.

Consideration transferred

	HK$'000
Cash	47,555

Acquisition-related costs amounting to approximately HK$112,000 have been excluded from the cost of acquisition and have been recognised directly as an expense during the period ended 30 September 2018 and included in the "other operating expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	HK$'000
Property, plant and equipment	46
Intangible assets	56
Cash and cash equivalents	44,863
Trade receivables	1,832
Other receivables, deposits and prepayments	2,323
Other payables and accrued charges	(670)
Contract liabilities	(320)
	48,130

The fair value of trade receivables and other receivables amounted to approximately HK$1,832,000 and HK$494,000, respectively, representing gross contractual amounts at the date of acquisition and contractual cash flows are expected to be fully collected.

Non-controlling interests

The non-controlling interest (45%) in Eqmen Technology Limited recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Eqmen Technology Limited and amounted to approximately HK$21,658,000.

Goodwill arising on acquisition (determined on a provisional basis)

	HK$'000
Consideration transferred	47,555
Plus: non-controlling interests	21,658
Less: recognised amount of identifiable net assets acquired (100%)	(48,130)
Goodwill arising on acquisition	21,083

Goodwill arose on the acquisition of Eqmen Technology Limited because the acquisition included the assembled workforce of Eqmen Technology Limited and some potential contracts which are still under negotiation with prospective new customers as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflows arising on acquisition

	HK$'000
Consideration paid in cash	47,555
Less: cash and cash equivalent balances acquired	(44,863)
	2,692

Impact of acquisition on the results of the Group

Included in the loss for the interim period is profit amounting to approximately HK$384,000 attributable to Eqmen Technology Limited. Revenue for the interim period includes HK$986,000 attributable to Eqmen Technology Limited.

Had the acquisition of Eqmen Technology Limited been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 September 2018 would have been approximately HK$9,952,000, and loss for the period from continuing operations would have been HK$13,057,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and loss of the Group had Eqmen Technology Limited been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group's consolidated net loss attributable to the owners of the Company during the six months ended 30 September 2018 decreased by 70.5% to HK$13,622,000 or 69.7% to HK1.0 cent per share (30 September 2017: loss of HK$46,198,000 or HK3.3 cents per share).

The analysis of condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 September 2018 is as follows:

Revenue

For the six month ended 30 September 2018, the Group's overall turnover increased by approximately 25.7% to HK$8,335,000 of which approximately HK$4,801,000, HK$796,000, HK$986,000, HK$26,000 and HK$1,726,000 (30 September 2017: HK$4,315,000, HK$1,160,000, nil, nil and HK$1,156,000) were attributable to our business of publishing and intellectual properties licensing, online and social business, digital marketing, retailing and wholesales and catering respectively.

The Group has recorded a slight increase in turnover for the business of publishing and intellectual properties licensing, representing an increase of approximately 11.3%. This increase was mainly market driven for the IP Licensing business.

For the six months ended 30 September 2018, the turnover of the online and social business segment has decreased by 31.4% to HK$796,000 compared to the six months ended of 2017. The drop was mainly market driven while the industry of digital cinema is experiencing a slowdown in the PRC.

The turnover of HK$986,000 is from a new acquisition of business, namely the digital marketing business, through an acquisition of a new subsidiary of the Group.

The turnover of retailing and wholesales segment represents the sales of premium wine of HK$26,000 during the six months ended 30 September 2018.

The catering services in Macau reported an increase in revenue of 49.3% to HK$1,726,000 as compared to the same period of 2017 due to improvement of the market conditions in general.

Gross profit and gross profit margins

The Group recorded a gross profit of approximately HK$5,150,000 or gross profit margin of 61.8% for the six months ended 30 September 2018 as compared to the same period of 2017, which recorded a gross loss of HK$26,081,000. The gross loss of 2017 was due to the poor box office performance of "On the Pitch" and the one-off amortization of film right of "On the Pitch" of HK$29,405,000 on the completion of the film's theatrical release in the PRC during the period. If excluding the results related to this film right, the adjusted gross profit margin would have been 50.1%. Comparing the profit margins for both periods, the improvement of gross profit margin of 2018 is due to the improvement of cost control and market conditions in general.

Other operating expenses

The Group recorded an aggregate other operating expenses of approximately HK$10,129,000 and HK$9,972,000 for the six months ended 2018 and 2017, respectively.

Such other operating expenses include audit fee, corporate fee, directors' emolument, consultancy and other professional fee and research and development expense for multi-media applications in the amount of approximately HK$3,200,000. Despite the slight increase in the other operating expenses for the six months ended 30 September 2018 as compared to the same period of previous year, the Group was able to control its total expenses.

Loss before tax

The Group recorded a loss before tax of approximately HK$14,809,000 during the six months ended 30 September 2018 (2017: HK$48,657,000). The Group has been successful in controlling costs and cutting off non-profitable operations. The Group is confident that with continuous control and reduction of costs, and investment in our core intellectual properties ("IPs") related business, the Group will soon return to profitability.

Also, as at 30 September 2018, the Group has net asset of approximately HK$316,629,000. Net asset value per share (weighted average) of HK$0.23 (31 March 2018: HK$0.22).

ACQUISITION OF A SUBSIDIARY

On 28 March 2018, Culturecom (Hong Kong) Limited, a wholly-owned indirect subsidiary of the Group has entered into a capital increase agreement (the "Agreement") with Eqmen Technology Limited ("EQmen") and its existing equity holders to increase the registered capital and capital reserves of EQmen in form of cash of RMB40,000,000 (approximately HK$47,555,000). EQmen is principally engaged in the digitalisation and commercialisation of IPs, content creation, agency of IPs services and digital marketing. Upon completion, the equity interest in EQmen is owned 55% by Culturecom (Hong Kong) Limited and 45% by the existing equity holders. This transaction was completed on 31 August 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 September 2018, the Group had bank and deposits with financial institutions balances in aggregate of approximately HK$244,019,000 and held for trading investments of approximately HK$6,163,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As of 30 September 2018, the Group had a net current assets of approximately HK$291,207,000 (31 March 2018: HK$305,872,000) and a current ratio of 27.4 (31 March 2018: 31.6). The Group's total liabilities as of 30 September 2018 amounted to approximately HK$13,344,000 (31 March 2018: HK$10,706,000) and represented approximately 4.4% (31 March 2018: 3.4%) to equity attributable to owners of the Company.

Upon consideration of the above, the Directors have no doubt that the Group will have sufficient liquidity to finance its daily operations, as reflected by its healthy financial status with a wealth of cash flow and other resources. As always, the Group will continue to follow prudent and disciplined cash management practices on any excess liquidity.

EMPLOYMENT AND REMUNERATION POLICIES

As of 30 September 2018, the Group had a total of 87 employees of which 29 are based in Hong Kong, 14 in Macau and 44 in the PRC. Total staff costs incurred during the six months ended 30 September 2018 amounted to approximately HK$6,805,000 (30 September 2017: HK$8,775,000). Remuneration packages are maintained at competitive levels and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

BUSINESS REVIEW

During the first half of the year, the Group continues to focus on streamlining operations and business segments, controlling costs and embarking on investment in its core intellectual properties ("IPs") related business.

The Group has been cautious and did not further invest in any new film or TV series productions. Film right and film production costs are brought forward from last year. The significant loss of the last Interim period was mainly due to the amortisation and impairment loss of film right and film production costs, which totaled HK$31,052,000. The Group is prepared to contribute its IPs and to provide technical support, including digitization of comic characters, to potential partners or production companies in producing films, TV series and games. This approach will reduce the risk of hefty investments in media productions which are generally with rather uncertain outcome or returns.

In March this year, the Group entered into an agreement to take a controlling stake of 55% in Eqmen Technology Limited ("EQmen"), EQmen is principally engaged in the digitalisation and commercialisation of IPs, content creation, agency of IPs services and digital marketing in the PRC. The investment amount is RMB40,000,000 (or about HK$47,555,000) for new shares of the EQmen.

EQmen has a proven track record, profitable and its business has a high barrier to entry because of its high technical standard. The investment was completed by the end of August this year. The contribution to the revenue of the Group for the current period is about HK$986,000, which is rather insignificant yet. EQmen is currently employing about 25 people and will continue to build on and to expand its marketing and technical team to develop and broaden its scope of IP commercialisation business. The EQmen, with the financial support of the Group, is also keen on acquiring IPs with good potential and popularity.

Publishing and IP Licensing Business

The Publishing and IP licensing business is rather stable in 2018 and 2017. The overall market is rather static. With the capability of digitalisation of its IPs, mainly comic characters, the Group is putting more effort to broaden the scope of licensing business and customer base to encompass the use of digital images. This should enhance and improve the marketability of IPs of the Group.

Online and Social Business

The Group is scaling down its online and social business to reduce losses. The Group will not provide further funding for developing multi-media applications by end of the year, and is changing its role as a fund provider to being a collaborator of contributing existing developed multi-media applications in various applications developments. Under this co-operative model, the Group will not incur further costs, in particular in research and development costs, and has a better chance of recuperating its investment costs.

Retail and Wholesales Business

The Group is working with a consultant to develop sales and distribution channels for its premium wine. This may involve joining any promotion events of vineyards or wine cellars, sales through online wine selling sites, or even targeting wine collectors.

Catering Business

The Group is scaling down its catering services business. During the current Interim period, income increased and costs reduced significantly. The Group is also looking for potential operating partners or operators.

PROSPECT

During this Interim period, the Group is showing improved results across all operating segments, either with increased revenue, or reduced costs, or both. With continuing focus on controlling costs and utilising our IPs in either direct licensing or using it in marketing of products or events, the Group is embarking on achieving a turn-around. As stated before, the Group will continue to invest in IPs related business. The Group will take a controlling stake in its future investments in IPs related business, which must have a proven track record, profitability and sustainable operations.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold and redeemed any of the listed securities in the Company during the six months ended 30 September 2018.

AUDIT COMMITTEE

The Audit Committee of the Company, with written terms of reference in line with the code provision set out in the Code on Corporate Governance Practices (the "Code") as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), currently comprises of three independent Non-executive Directors, namely Mr. Lai Qiang, Mr. Fan Chun Wah Andrew and Mr. Wong Kwan Kit. The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control, risk management and financial reporting matters including the review of unaudited interim results for the six months ended 30 September 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules throughout the period ended 30 September 2018 except for the following deviations:

Code Provision A.4.1

Under the code provision A.4.1, Non-executive Directors should be appointed for a specific term, subject to re-election. The current independent Non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including Executive and Non-executive) of the Company are subject to retirement by rotation at the Annual General Meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Code Provision A.5.6

Under the code provision A.5.6, the nomination committee should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report. The Board is actively considering the adoption of the relevant policy. In view of achieving a sustainable and balanced development, the Company sees increasing diversity on the board of directors ("the Board") as an essential element in supporting the achievement of its strategic objectives and its sustainable development.

The Company recognizes the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

A summary of a Policy aiming to set out the approach to achieve a balanced and a diversified Board together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual corporate governance report.

Code Provision E.1.2

Under the code provision E.1.2, the Chairman of the Board should attend the annual general meeting. The position of the Chairman of the Board was not filled before the Company's annual general meeting held on 22 August 2018. However, an Executive Director, present at the annual general meeting took the chair of that meeting in accordance with the Bye-Laws of the Company.

The Company will arrange for the election of the new Chairman of the Board as soon as practicable in order to fill up the vacancy as Chairman.

MINIMUM NUMBERS OF AUDIT COMMITTEE MEMBERS

Following the retirement of Mr. Joseph Lee Chennault on 22 August 2017, the Company comprises of two Audit Committee members, Mr. Lai Qiang and Mr. Fan Chun Wah Andrew, the number of which fell below the minimum number required under rules 3.21 of the Listing Rules.

After the appointment of Mr. Wong Kwan Kit as independent Non-executive Director of the Company on 3 July 2018, the Company has then complied with the Rules 3.21 of the Listing Rules.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 September 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.culturecom.com.hk. The interim report will be despatched to the shareholders of the Company and will be published on the above websites in due course.

By Order of the Board
CULTURECOM HOLDINGS LIMITED
KWAN KIN CHUNG
Managing Director

Hong Kong, 23 November 2018

As at the date of this announcement, the Board comprises of Ms. Chow Lai Wah Livia (being Vice Chairman and executive Director); Mr. Kwan Kin Chung, Mr. Huang Mingguo, Mr. Yuen Kin and Mr. Tang Kwing Chuen Kenneth (all being executive Directors); Mr. Fan Chun Wah Andrew, Mr. Lai Qiang, Mr. Wong Kwan Kit and Ms. Ng Ying (all being independent non-executive Directors).

** for identification purposes only*