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KK CULTURE HOLDINGS LIMITED **KK 文化控股有限公司**

(Incorporated in Cayman Islands and continued in Bermuda with limited liability)
(Stock code: 550)

ANNOUNCEMENT OF INTERIM RESULTS **FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The Board of Directors (the “**Board**”) of KK Culture Holdings Limited (the “**Company**”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		(Unaudited)	
		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(restated)</i>
Continuing operations			
Turnover	6	8,391	30,984
Direct operating costs		(6,581)	(7,207)
Gross profit		1,810	23,777
Other income		3,865	4,552
Selling and distribution costs		(7,387)	(11,280)
Administrative expenses		(12,244)	(21,762)
Reversal of impairment/(Impairment) on trade and other receivables and loan receivables, net		104	(95)
Finance costs	7	(550)	(344)
Loss before income tax from continuing operations	8	(14,402)	(5,152)
Income tax credit/(expense)	9	148	(628)
Loss for the period from continuing operations		(14,254)	(5,780)
Discontinued operations			
Loss for the period from discontinued operations	10	–	(14,848)
Loss for the period		(14,254)	(20,628)

		(Unaudited)	
		Six months ended 30 June	
		2020	2019
Notes		HK\$'000	HK\$'000 (restated)
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
	Fair value loss on equity instruments at fair value through other comprehensive income	(9,259)	(5,270)
Other comprehensive income for the period, net of tax		(9,259)	(5,270)
Total comprehensive income for the period		(23,513)	(25,898)
Loss for the period attributable to:			
<i>Equity shareholders of the Company</i>			
	Loss for the period from continuing operations	(14,254)	(5,780)
	Loss for the period from discontinued operations	–	(12,322)
	Loss for the period attributable to equity shareholders of the Company	(14,254)	(18,102)
<i>Non-controlling interests</i>			
	Loss for the period from continuing operations	–	–
	Loss for the period from discontinued operations	–	(2,526)
	Loss for the period attributable to non-controlling interests	–	(2,526)
Total comprehensive income attributable to:			
	Equity shareholders of the Company	(23,513)	(23,372)
	Non-controlling interests	–	(2,526)
		(23,513)	(25,898)
Basic and diluted loss per share			
	– from continuing operations	11(b) (HK3.19 cents)	(HK1.29 cents)
	– from discontinued operations	11(c) –	(HK2.76 cents)
	– from continuing and discontinued operations	11(a) (HK3.19 cents)	(HK4.05 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	294	3,441
Right-of-use assets		5,654	10,712
Equity instruments at fair value through other comprehensive income		40,856	50,115
Loan receivables		11,407	–
		<hr/> 58,211	<hr/> 64,268
Current assets			
Trade receivables	13	1,945	4,254
Other receivables, deposits and prepayments	13	13,897	13,142
Tax recoverable		692	813
Loan receivables		1,850	14,051
Cash and cash equivalents		98,484	100,177
		<hr/> 116,868	<hr/> 132,437
Current liabilities			
Contract liabilities		987	788
Other payables and accruals		14,730	6,661
Amounts due to a director		1,093	1,093
Other borrowing		5,760	5,760
Current portion of lease liabilities		1,933	6,592
Provision for taxation		–	155
		<hr/> 24,503	<hr/> 21,049

		At 30 June	At 31 December
		2020	2019
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Net current assets		92,365	111,388
Total assets less current liabilities		150,576	175,656
Non-current liabilities			
Non-current portion of lease liabilities		735	2,302
		735	2,302
Net assets		149,841	173,354
EQUITY			
Share capital	<i>14</i>	89,323	89,323
Reserves		60,518	84,031
Total equity		149,841	173,354

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Net cash used in operating activities	<u>(128)</u>	<u>(1,619)</u>
Investing activities		
Interest received	876	364
Proceed from disposal of investment property	–	10,896
Repayment of loan receivables	1,000	–
Net cash outflow on disposal of subsidiaries	–	(107)
Payment of licenses fee payables	–	(14,910)
	<u>1,876</u>	<u>(3,757)</u>
Net cash generated from/(used in) investing activities		
Financing activities		
Bank and other borrowings raised	–	14,560
Interest on bank and other borrowings paid	(437)	(346)
Repayment of principal portion of lease liabilities	(2,891)	(4,571)
Interest paid on lease liabilities	(113)	(344)
Decrease in amounts due to a director	–	(2,500)
	<u>(3,441)</u>	<u>6,799</u>
Net cash (used in)/generated from financing activities		
Net (decrease)/increase in cash and cash equivalents	(1,693)	1,423
Cash and cash equivalents at the beginning of the period	100,177	109,500
	<u>98,484</u>	<u>110,923</u>
Cash and cash equivalents at the end of the period		
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>98,484</u>	<u>110,923</u>

MAJOR NON-CASH TRANSACTION

For the six months ended 30 June 2019, the Group disposed its entire interests in subsidiaries (note 18) by entering into the equity sales and purchase agreement. The consideration of the disposal was satisfied by the issuance of shares of the purchaser in three tranches. The Group received the first tranche at fair value of approximately HK9,846,000 on 6 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Investment revaluation reserve	Employee compensation reserve	Merger reserve	Contributed surplus	Accumulated loss			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2020 (Audited)	89,323	162,310	15,273	–	(43,897)	95,402	(145,057)	173,354	–	173,354
Loss for the period	–	–	–	–	–	–	(14,254)	(14,254)	–	(14,254)
Other comprehensive income:										
Change in fair value on equity instruments at fair value through other comprehensive income	–	–	(9,259)	–	–	–	–	(9,259)	–	(9,259)
Total comprehensive income for the period	–	–	(9,259)	–	–	–	(14,254)	(23,513)	–	(23,513)
Balance at 30 June 2020 (Unaudited)	89,323	162,310	6,014	–	(43,897)	95,402	(159,311)	149,841	–	149,841

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Investment revaluation reserve	Employee compensation reserve	Merger reserve	Contributed surplus	Accumulated loss			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2019 (Audited)	89,323	162,310	1,856	1,991	(43,897)	95,402	(113,271)	193,714	(21,821)	171,893
Lapsed of share options	–	–	–	(1,991)	–	–	1,991	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	–	–	24,347	24,347
Transactions with equity shareholders	–	–	–	(1,991)	–	–	1,991	–	24,347	24,347
Loss for the period	–	–	–	–	–	–	(18,102)	(18,102)	(2,526)	(20,628)
Other comprehensive income:										
Change in fair value on equity instruments at fair value through other comprehensive income	–	–	(5,270)	–	–	–	–	(5,270)	–	(5,270)
Total comprehensive income for the period	–	–	(5,270)	–	–	–	(18,102)	(23,372)	(2,526)	(25,898)
Balance at 30 June 2019 (Unaudited)	89,323	162,310	(3,414)	–	(43,897)	95,402	(129,382)	170,342	–	170,342

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for equity instruments that are measured at fair values. The condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in preparing the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019 except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. Details of any changes in Hong Kong Financial Reporting Standards ("HKFRS") are set out in note 3.

The Group has not early adopted the new HKFRS that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these new HKFRS but are not yet in a position to state whether they would have material financial impact on the Group's results of operations and financial position.

3. CHANGE IN HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3: Definition of a Business
- Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8: Definition of Material
- The Conceptual Framework for Financial Reporting 2018

The application of these new or amended HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

5. SEGMENT INFORMATION

The executive director has identified the Group has only one reportable segment, which the provision of advertising services.

The Group's revenue from external customers and its non-current assets other than financial instruments are divided into the following geographical areas.

	Revenue from external customers		Non-current assets	
	(Continuing operations)		30 June	31 December
	Six months ended 30 June			
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		
Hong Kong (domicile)	8,391	30,984	5,948	14,153

Sales by geographical markets are analysed based on the location of customers and the geographical location of non-current assets is based the physical location of the assets (for property, plant and equipment, investment properties and right-of-use assets).

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the unaudited condensed consolidated interim financial statements as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(restated)
Continuing operations		
Reportable segment loss	(9,844)	(1,321)
Unallocated corporate income	3,576	4,468
Unallocated corporate expenses*	(7,635)	(8,128)
Finance costs	(499)	(171)
	<hr/>	<hr/>
Loss before income tax	(14,402)	(5,152)
	<hr/> <hr/>	<hr/> <hr/>
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Reportable segment assets	22,541	26,470
Property, plant and equipment	–	3,398
Equity instrument at fair value through other comprehensive income	40,856	50,115
Right-of-use assets	3,950	5,328
Loan receivables	1,850	2,644
Other receivables, deposits and prepayments	11,773	9,959
Cash and cash equivalents	93,865	98,674
Other corporate assets	244	117
	<hr/>	<hr/>
Group assets	175,079	196,705
	<hr/> <hr/>	<hr/> <hr/>
Reportable segment liabilities	9,435	8,488
Amounts due to a director	1,093	1,093
Other borrowing	5,760	5,760
Lease liabilities	875	3,400
Other payables and accruals	8,075	4,413
Other corporate liabilities	–	197
	<hr/>	<hr/>
Group liabilities	25,238	23,351
	<hr/> <hr/>	<hr/> <hr/>

* Unallocated corporate expenses included staff costs, depreciation and legal and professional fee.

6. TURNOVER

The principal activities of the Group are the provision of advertising services and property investment.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(restated)
<i>Continuing operations</i>		
Revenue from contracts with customers within the scope of HKFRS 15:		
Advertising income – Recruitment	8,391	30,823
Revenue from other sources:		
Rental income	–	161
	<hr/>	<hr/>
	8,391	30,984
<i>Discontinued operations</i>		
Revenue from contracts with customers within the scope of HKFRS 15:		
Advertising income – Train media	–	4,036
	<hr/>	<hr/>
	8,391	35,020
	<hr/> <hr/>	<hr/> <hr/>

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

	Continuing operations						Discontinued operations			
	Advertising – Recruitment		Property investment		Total		Advertising – Train media		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)		(restated)		(restated)		(restated)		(restated)
Primary geographical market										
Hong Kong	8,391	30,823	-	161	8,391	30,984	-	-	8,391	30,984
PRC	-	-	-	-	-	-	-	4,036	-	4,036
	8,391	30,823	-	161	8,391	30,984	-	4,036	8,391	35,020
Major products/services										
Provision of advertising services										
- Recruitment	8,391	30,823	-	-	8,391	30,823	-	-	8,391	30,823
- Train media	-	-	-	-	-	-	-	4,036	-	4,036
	8,391	30,823	-	-	8,391	30,823	-	4,036	8,391	34,859
Property rentals	-	-	-	161	-	161	-	-	-	161
	8,391	30,823	-	161	8,391	30,984	-	4,036	8,391	35,020
Timing of revenue recognition										
Transferred over time	8,391	30,823	-	161	8,391	30,984	-	4,036	8,391	35,020

7. FINANCE COSTS

Six months ended 30 June	
2020	2019
(Unaudited)	(Unaudited)
<i>HK\$'000</i>	<i>HK\$'000</i>
	(restated)

Continuing operations

Interest charges on other borrowing
with repayment on demand clause

437

-

Interest on lease liabilities

113

344

550

344

8. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i> (restated)
Continuing operations		
Depreciation of property, plant and equipment and investment properties	414	418
Depreciation of right-of-use assets	1,723	4,709
Employee benefit expense	7,147	18,430
Exchange losses, net	159	1
Gain on disposal of property, plant and equipment	(177)	–
Gain on disposal of investment property	–	(1,398)
Short-term lease expenses	–	39
Low-value assets leases expenses	11	5
Interest income	(939)	(364)
Direct operating expenses arising from investment properties that generated rental income	–	14
	<u> </u>	<u> </u>

9. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/charge to the unaudited condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i> (restated)
Continuing operations		
Hong Kong profits tax:		
Current period	–	628
Over provision in respect of prior years	(148)	–
	<u> </u>	<u> </u>
Income tax (credit)/expense	<u> </u> (148)	<u> </u> 628

On 21 March 2018, Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced the two-tiered profits tax rates regime. The Bill was effective on 28 March 2018. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations is taxed at 8.25%, and profits above HK\$2 million is taxed at 16.5%. The profits of group entities in Hong Kong that are not qualifying for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

Accordingly, Hong Kong profits tax is levied at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on those above HK\$2 million on a qualified entity applied two-tiered profit tax rate regime.

10. DISCONTINUED OPERATIONS

On 29 March 2019, the Group entered into a sale agreement to dispose of the entire interest in Fullmoon Global Limited and its subsidiaries (the “**Disposal Group**”), which was engaged in provision of advertising services. The disposal was completed on 6 June 2019, the date on which the control of the Disposal Group passed to the acquirer.

The operations of the Disposal Group represented the entire business segment of provision of advertising services in the People’s Republic of China (the “**PRC**”) of the Group and therefore, they were presented as discontinued operations in 2019 group accounts in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The comparative condensed consolidated statement of profit or loss and other comprehensive income and the relevant disclosure notes for profit or loss items have been re-presented as if the operations discontinued had been discontinued at the beginning of the comparative period.

An analysis of the results and cash flows of the discontinued operations included in the condensed consolidated statement of profit or loss and other comprehensive income and the condensed consolidated statement of cash flows are as follows:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
Turnover	4,036
Direct operating costs	—
	<hr/>
Gross profit	4,036
Administrative expenses	(9,394)
Finance costs	(957)
	<hr/>
Loss before income tax from discontinued operations	(6,315)
Income tax expense	—
	<hr/>
Loss after income tax from discontinued operations	(6,315)
Loss on disposal of subsidiaries (<i>Note 18</i>)	(8,533)
	<hr/>
Loss for the period from discontinued operations	<u><u>(14,848)</u></u>

The net cash flows related to the Disposal Group are as follows:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
Net cash inflows from operating activities	13,800
Net cash outflows from investing activities	(14,298)
	<hr/>
Net cash outflow	<u><u>(498)</u></u>

11. LOSS PER SHARE

(a) For continuing and discontinued operations

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

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000 (restated)
Loss for the period attributable to equity shareholders of the Company		
Continuing operations	(14,254)	(5,780)
Discontinued operations	–	(12,322)
	<u>(14,254)</u>	<u>(18,102)</u>
	Number of shares	
	Six months ended 30 June	
	2020	2019
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>446,614</u>	<u>446,614</u>

For the six months ended 30 June 2020, basic and diluted loss per share attributable to equity shareholders of the Company are the same as the Company did not have any dilutive equity instruments throughout the period.

For the six months ended 30 June 2019, diluted loss per share attributable to equity shareholders of the Company are the same as basic loss per share as the impact of the exercise of share options was anti-dilutive.

(b) For continuing operations

For the six months ended 30 June 2020, the calculation of basic loss per share from continuing operations is based on the loss attributable to equity shareholders of the Company from continuing operations of HK\$14,254,000 (six months ended 30 June 2019: HK\$5,780,000) and the denominators used are the same as those detailed above for both basic and diluted earnings per share.

For the six months ended 30 June 2020, basic and diluted loss per share attributable to equity shareholders of the Company are the same as the Company did not have any dilutive equity instruments throughout the period.

For the six months ended 30 June 2019, diluted loss per share from continuing operations attributable to owners of the Company are the same as basic earnings per share as the impact of the exercise of share options was anti-dilutive.

(c) For discontinued operations

For the six months ended 30 June 2019, the calculation of basic loss per share from discontinued operations was based on the loss attributable to equity shareholders of the Company from discontinued operations of HK\$12,322,000 and the denominators used were the same as those detailed above for both basic and diluted earnings per share.

For the six months ended 30 June 2019, diluted loss per share from discontinued operations attributable to equity shareholders of the Company are the same as basic earnings per share as the impact of the exercise of share options was anti-dilutive.

12. PROPERTY, PLANT AND EQUIPMENT

The movement during the period are:

	Property, plant and equipment <i>HK\$'000</i>
Net book amount as at 1 January 2020 (Audited)	3,441
Disposals	(2,733)
Depreciation	(414)
	<hr/>
Net book amount as at 30 June 2020 (Unaudited)	<u>294</u>

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows a credit period from 7 days to 120 days (31 December 2019: 7 days to 120 days) to its trade customers.

Aging analysis of trade receivables as at 30 June 2020, based on invoice date and net of provisions, is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0 – 30 days	1,918	3,941
31 – 60 days	27	242
61 – 90 days	–	37
91 – 120 days	–	18
121 – 150 days	–	12
Over 150 days	–	4
	<hr/>	<hr/>
Total trade receivables	1,945	4,254
Other receivables, deposits and prepayments	13,897	13,142
	<hr/>	<hr/>
	15,842	17,396
	<hr/> <hr/>	<hr/> <hr/>

14. SHARE CAPITAL

	No of shares '000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	5,000,000	1,000,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	446,614	89,323
	<hr/> <hr/>	<hr/> <hr/>

15. DIVIDENDS

No interim dividend was declared in respect of the six months ended 30 June 2020 and 2019.

16. CAPITAL COMMITMENTS

As at 30 June 2020, there were no capital commitment contracted but not provided for in respect of the acquisition of property, plant and equipment (31 December 2019: Nil).

17. RELATED PARTY TRANSACTIONS

a) Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, details of significant transactions between the Group and other related parties for the six months ended 30 June 2020 are disclosed as follows:

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Licenses fee income received from a related company	(i)	2,610	2,750
Gain on disposal of property, plant and equipment to a related company	(ii)	177	–
		<u>2,787</u>	<u>2,750</u>

Notes:

- (i) On 24 January 2019, the Company entered into a licensing agreement (the “**Licence Agreement**”) with Kingkey Enterprise Hong Kong Limited (“**Kingkey Enterprise**”) (as Licensors) and UKF Management Limited (currently known as “Kingkey Management Limited”) (“**KKM**”) (as Licensee), a wholly owned subsidiary of UKF (Holdings) Limited (currently known as “Kingkey Financial International (Holdings) Limited”) (“**KKFI**”), the issued shares of which are primary listed on the Main Board of the Stock Exchange (Stock Code: 1468), where the Licensors agreed to lease certain areas of the office premises of 44/F, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong to Licensee for the period from 24 January 2019 to 15 May 2020 (both days inclusive), at a monthly rent HK\$580,000. As Kingkey Enterprise is wholly-owned by Mr. Chen Jiajun, substantial shareholder of the Company, holding 21.28% interest of the Company and also a substantial shareholder of KKFI, therefore Kingkey Enterprise and UKF are related parties of the Company. Leasing income was charged at the market rate at the date when the Licence Agreement was entered.
- (ii) During the six months ended 30 June 2020, the Company disposed certain property, plant and equipment to KKM, a wholly owned subsidiary of KKFI with a consideration of HK\$2,910,000. The consideration was determined by an arms-length negotiation with reference to the net book value of the property, plant and equipment on the contract date.

b) Amount due from a related party

At the end of the reporting period, the Group had the following balance with a related party:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Included in other receivables:		
Kingkey Management Limited (<i>Note</i>)	2,910	–

Note:

Amount due from a related party is unsecured, interest free and expected to be recovered within one year.

c) Compensation of key management personnel

The directors of the Company and the subsidiaries of the Company were considered to be key management personnel of the Group. The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	763	1,137

18. DISPOSAL OF MATERIAL SUBSIDIARIES

On 6 June 2019, the Group disposed its entire interests in the Disposal Group, which was engaged in provision of advertising services, to an independent third party at the consideration of HK\$34,750,000 that shall be satisfied by the allotment and issue of the shares in three tranches at the issue price of HK\$0.2 per share of the purchaser to the Group or its designated nominees in accordance with the terms and conditions of the sales and disposal agreement.

The first tranche consideration at fair value of approximately HK\$9,846,000 was received on 6 June 2019. The second and third tranche considerations are regarded as contingent consideration and will be receivable upon the condition, as stated in the terms and conditions of the sales and disposal agreement, are met.

Net liabilities at the date of disposal were as follows:

	<i>HK\$'000</i>
Other intangible assets	15,242
Trade receivables	5,094
Other receivables and deposits	24,080
Bank and cash balance	107
Other payables	(1,528)
Amounts due to non-controlling interests	(12,563)
Licenses rights fee payables	(27,600)
Other borrowings	(8,800)
Shareholders' loan	(99,165)
	<hr/>
	(105,133)
Non-controlling interests	24,347
Assignment of shareholders' loan	99,165
Loss on disposal of subsidiaries	(8,533)
	<hr/>
Total consideration	9,846
	<hr/> <hr/>
Total consideration consistent of:	
Issuance of shares	9,846
	<hr/> <hr/>
Net cash outflow arising from the disposal:	
Bank and cash balance disposed of	(107)
	<hr/> <hr/>

19. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

20. EVENT AFTER REPORTING DATE

This is no material subsequent event undertaken by the Group after 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half year 2020 was an extremely difficult time for almost all of the businesses in Hong Kong and even the whole world due to the outbreak of the COVID-19. The event and the impact is unprecedented due to its highly contagious characteristic and speedy widespread, although the mortality rate is lower than SARS in 2003. All physical businesses have been substantially disrupted to different extents since early February. When confirmed cases began to subside in the middle of the first half of the financial year, we organised a job fair and received some positive feedback from some of our customers by placing recruitment advertisement at our magazine. While people considered the pandemic in Hong Kong was coming to an end, the third wave of the pandemic has stroke Hong Kong again shortly after the period end. Medical experts hold the common view that this was the result of Hong Kong refusing a complete lockdown which has further sent Hong Kong economy to a more disastrous situation. Businesses are again forced to suspend which have created grave pressure on Hong Kong's labour market as evidenced by enterprises having stopped recruiting or even downsizing, leading to the unemployment rate in Hong Kong rose significantly from 3.4% in January 2020 to a decade-high of 5.9% in June 2020 and the figure keeps rising subsequently. Our previous efforts to boost revenue were wiped out. The increasing tension between China and the United States, however, has become less material. As a result, income from the Group's recruitment advertising business and the Group's financial results has been inevitably adversely affected. In order to cope with the downside, the Company exercised stringent cost control measures and tighten the operating expenses.

PROSPECT

With the lesson learnt from SARS in 2003, entrepreneurs in Hong Kong are quick to respond to the pandemic. It is not clear when it will end but we are optimistic that with the strong will to combat the virus by Hong Kong people, the contagion will go down soon. By then, we expect that there will be a rebound of Hong Kong economy not long after and our Recruit business will recover some lost ground.

Also, as mentioned in our 2019 annual report, the Recruit business has focused more on digital over print and develop our digital business by adopting "offline to online" strategy to increase its efficiency and marketing power while business-related cost can be reduced.

Moreover, after the pandemic, we believe that Hong Kong people, especially from middle to high net worth class, are more aware of their health. Shortly after the reporting period, our Group has commenced a new business in order to grasp this business opportunity. We provide various services to the public including not only COVID-19 testing but also hormone testing, genetic testing and sports testing. Follow-up services are also provided by Hong Kong licenced doctors and qualified dieticians to provide professional analysis and advice based on the test results. The Company has earned more than HK\$1 million in around one month shortly after the business is commenced. Our clientele consist of sizable companies, listed and private, well known enterprises from different industries as well as government-funded institutes. We believe this new business is a viable long-term business which can contribute significant revenue to the Group.

The Directors will continue to explore and/or make selective investment whether the Group see the biggest structural opportunities for growth. It is anticipated that apart from the healthcare industry, the market for information technology solutions is driven primarily by the rising incidence of COVID-19, the increasing use of big data and the need to curtail escalating information technologies costs. Taking this as an opportunity, the Directors are in the course of exploring the possibility to commence business in this area by leveraging on the Group's technology knowhow, identifying new trends, opportunities and building relationships with key players in the information technology industry.

While it remains uncertain as to when the COVID-19 epidemic will end and the Hong Kong economy can fully recover, the Board will continue to monitor and assess the situation with respect to COVID-19, and remain committed to mitigate any adverse risk or impact COVID-19 may have on the operating and financial performance of the Group.

The Group is also planning to engage business in China to diversify the geographical risk. Appropriate disclosure will be made in due course.

FINANCIAL REVIEW

For the six months ended 30 June 2020, the Group recorded revenue of approximately HK\$8.4 million (2019: HK\$35.0 million) representing a decrease of approximately HK\$26.6 million or 76.0%. The decrease in turnover was mainly due to the outbreak of the COVID-19 pandemic, driving labour market to be conservative which led to a fall in customers placing recruitment advertisement.

Selling and distribution costs decreased from approximately HK\$11.3 million in the first half of 2019 to approximately HK\$7.4 million in the first half of 2020.

For the six months ended 30 June 2020, the Group recorded approximately HK\$12.2 million (2019: HK\$31.2 million) of administrative expenses, representing a decrease of HK\$19.0 million or 60.9%. It is attributable to the absence of the non-cash amortization expenses of other intangible assets relating to the train media business which was disposed of in the first half of 2019.

For the six months ended 30 June 2019, the Group recorded a one-off loss on disposal of approximately HK\$8.5 million due to the disposal of the train media business which did not occur in 2020.

Income tax credit of approximately HK\$148,000 (2019: income tax expense of HK\$628,000), was mainly attributable to the decrease in taxable profit derived from the group companies during the period.

As a result of the above, for the six months ended 30 June 2020, the Group recorded a net loss of approximately HK\$14.3 million, compared with a net loss of approximately HK\$20.6 million for the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had net current assets of approximately HK\$92.4 million (31 December 2019: HK\$111.4 million). The Group's current ratio was approximately 4.8 (31 December 2019: 6.3) while the Group's net assets was approximately HK\$149.8 million compared with those of approximately HK\$173.4 million as at 31 December 2019. Total cash and bank deposits was approximately HK\$98.5 million (31 December 2019: HK\$100.2 million).

The Group generally finance its operations mainly with internally generated cashflow. The Group's gearing ratio as at 30 June 2020 was 0.04 (31 December 2019: 0.03), which is calculated on the basis of the Group's total interest bearing debts over the total equity interest. Total other borrowing as at both 30 June 2020 and 31 December 2019 was approximately HK\$5.8 million. There was no bank loan as at 30 June 2020 and 31 December 2019.

The Group adopts centralised financing and treasury policies in order to ensure the Group’s funding is utilised efficiently. Conservative approach is adopted on monitoring foreign exchange exposure and interest rate risk. Forward contracts were used to hedge the foreign currency exposure in trading and capital expenditure when it was considered appropriate.

INVESTMENTS IN SECURITIES

As at 30 June 2020, the Company has invested in two securities. The details of, the breakdown and the movement of which during the period is summarised below:

Principal business	No. of share	% of shareholding	At 1 January 2020 HK\$	Fair value changed during the year HK\$	At 30 June 2020 HK\$	% to the Group’s net assets as at 30 June 2020	% to the Group’s total assets as at 30 June 2020
<i>Listed equity securities – Hong Kong</i>							
Kingkey Financial international (Holdings) Limited (HK: 1468) [#]	115,740,000	2.39%	44,559,900	(9,259,200)	35,300,700	23.6%	20.2%
(i) securities brokerage; (ii) wealth management; and (iii) other financial services, mink farming and trading of mink’s fur skin.							
China Baoli Technology (Holdings) Limited (HK: 0164) [#]	57,916,665	1.56%	5,555,646	–	5,555,646	3.7%	3.2%
(i) mobile and multi-media technologies; (ii) gamma ray radiation services; (iii) tourism and hospitality business; and (iv) train media.							
Total			<u>50,115,546</u>	<u>(9,259,200)</u>	<u>40,856,346</u>	<u>27.3%</u>	<u>23.4%</u>

[#] Included in equity instruments at fair value through other comprehensive income

* The above listed ordinary shares as a significant investment held by the Group as at 30 June 2020. The aggregate costs of investment in the above share was approximately HK\$24,996,000.

CAPITAL STRUCTURE

As at 30 June 2020, the total issued shares of the Company (“**Shares**”) was 446,614,000 (31 December 2019: 446,614,000 Shares) at HK\$0.2 each.

Fund Raising Activity

On 31 July 2018, the Company entered into a placing agreement with BaoQiao Partners Capital Limited (“**BaoQiao**”, the “**Placing Agent**”) pursuant to which the Company conditionally agreed to place, through the Placing Agent, on a best-effort basis, a maximum of 74,000,000 Shares under the general mandate granted by the shareholders of the Company at the annual general meeting held on 8 June 2018 to placees who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons as defined in the Listing Rules at a price of HK\$1.40 per share. The gross and net proceeds raised from the placing of a total of 74,000,000 Shares were approximately HK\$103.6 million and HK\$103.0 million respectively where the intended use of proceeds was for general working capital and future business and investment opportunities. Set out below is the table summarising (i) the net proceeds from the Placing; (ii) the intended use of proceeds from the Placing; (iii) the actual use of proceeds from the Placing as at 30 June 2020; and (iv) the remaining net proceeds from the Placing as at 30 June 2020.

No.	Net proceeds from the Placing	Intended use of proceeds from the Placing	Actual use of proceeds from the Placing as at 30 June 2020	Remaining net proceeds from the Placing as at 30 June 2020
(i)	Approximately HK\$10 million	For general working capital in the daily operation of the Group	Fully utilized by the Group for general working capital in the daily operation	Fully utilized by the Group for general working capital in the daily operation
(ii)	Approximately HK\$93 million	For any potential investment opportunities as identified by the Group	Not yet utilized by the Group	Approximately HK\$93 million and is expected to be when a suitable investment opportunity is identified by the Group
Total	Approximately HK\$103 million			

As at 30 June 2020, the Group has not identified any suitable investment in line with the business strategies of the Group and it will continue to identify any further potential investment opportunities. Detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

There was no material change in the intended use of proceeds from the Placing as at 30 June 2020.

Save as disclosed above, there was no fund raising activity taken place during the six months ended 30 June 2020.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITY

As at 30 June 2020, the Group had no significant capital commitments (31 December 2019: nil). The Group had no significant contingent liabilities as at 30 June 2020 (31 December 2019: nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Save as disclosed, the Group did not have any material acquisition or disposal of subsidiaries during the six months ended 30 June 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS IN CAPITAL ASSETS

As at 30 June 2020, the Company had no plan for material investments in capital assets.

CHARGE ON GROUP ASSETS

As at 30 June 2020, there was no charge on Group assets.

OTHER DISCLOSURES

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2020, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”)) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the “**Model Code**”), were as follows:

Long position in the shares of the Company

Name	Nature of Interest	Number of Shares	Approximate Percentage in the Issued Share Capital of the Company
Mr. YIU Yu Cheung	Beneficial owner	3,330,000	0.75%
Mr. TSANG Hing Bun	Beneficial owner	500,000	0.11%

Long position in underlying shares or equity derivatives of the Company

As at 30 June 2020, neither of the Directors nor the chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under section 352 of the SFO; or (iii) had to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company has adopted a share option scheme approved by a resolution passed by the shareholders of the Company on 29 December 2015, under which it may grant options to directors, employees, any advisors and service providers of any member of the Group to subscribe for shares in the Company.

For the six months ended 30 June 2020, no share options were outstanding and for the six months ended 30 June 2020, no share options were granted, exercised or cancelled.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, so far as was known to the directors and chief executive of the Company the following persons (other than a director or chief executive of the Company) had or were deemed to have, interests or short positions in the shares or underlying shares of the Company being 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of Interest	Number of Shares	Approximate Percentage in the Issued Share Capital of the Company
Upsky Global Limited (<i>Note 1</i>)	Beneficial owner	95,037,657	21.28%
Champion Ease Group Limited (<i>Note 2</i>)	Beneficial owner	74,000,000	16.57%
Polaris Investment Management Limited (<i>Note 3</i>)	Beneficial owner	50,248,828	11.25%

Notes:

1. Upsky Global Limited is wholly and beneficially owned by Mr. Chen Jiajun.
2. Champion Ease Group Limited is interested as to 50% by each of Ms. Zhan Meiqing and Mr. Liu Guoliang.
3. Polaris Investment Management Limited is wholly and beneficially owned by Mr. Liu Gary Wei.

CONTINUING CONNECTED TRANSACTIONS

On 24 January 2019, the Company entered into a licensing agreement (the “**Licence Agreement**”) with Kingkey Enterprise Hong Kong Limited (“**Kingkey Enterprise**”) (as Licensors) and UKF Management Limited (currently known as “Kingkey Management Limited”) (as Licensee), a wholly owned subsidiary of UKF (Holdings) Limited (currently known as “Kingkey Financial International (Holdings) Limited”) (“**KKFI**”), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are primary listed on the Main Board of the Stock Exchange (Stock Code: 1468), where the Licensors agreed to lease certain areas of the office premises of 44/F, Officer Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong To Licensee for the period from 24 January 2019 to 15 May 2020 (both days inclusive), at a monthly rent HK\$580,000 (exclusive of Government rates, management fee and air-conditioning charges). The annual cap of the said leasing for the Company for the year ended 31 December 2019 and year ending 31 December 2020 is HK\$6,600,000 and HK\$2,700,000 respectively.

The terms of the Licence Agreement were negotiated on an arm’s length basis and the rental chargeable under the Licence Agreement was determined after taking into account the prevailing market rental rates as advised by an independent surveyor engaged by the Company. The Directors (including the independent non-executive Directors) considered that the Licence Agreement was entered into in the ordinary and usual course of business of the Company, and its terms are on normal commercial terms and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

As Kingkey Enterprise is wholly-owned by Mr. Chen Jiajun, the substantial Shareholder of the Company, holding 21.28% interest of the Company and also a substantial shareholder of KKFI, therefore Kingkey Enterprise and KKFI are connected persons of the Company. Accordingly, the transaction contemplated thereby constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio calculated under the Listing Rules in respect of the proposed annual cap under the Licence Agreement is more than 5% but less than 25% and the proposed annual cap is less than HK\$10,000,000, the transaction contemplated under the Licence Agreement is subject to reporting, annual review and announcement requirements but exempt from circular (independent financial advice) and approval of the Company’s shareholders requirements pursuant to Rule 14A.76(2) of the Listing Rules.

Save as disclosed above, during the six months ended 30 June 2020, the Group has not entered into any connected transactions or continuing connected transaction for the year which are required to disclose pursuant to Chapter 14A of the Listing Rules. Meanwhile, the Company has the necessary internal controls in place to ensure that the terms of all connected or continuing connected transactions, if any, are fair and reasonable and in the interest of the Company and Shareholders as a whole.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**Code Provision**”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2020.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by the directors throughout the six months ended 30 June 2020.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2020, the Group had 28 full-time employees (30 June 2019: 53). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. Other employee benefits include provident fund, insurance and medical cover. Share options was granted to certain full-time employees and directors pursuant to the Company's share option scheme.

AUDIT COMMITTEE

The audit committee has four members comprising one Non-executive Director, Mr. Yiu Yu Cheung and three independent Non-executive Directors, namely, Mr. Chan Chiu Hung, Alex (Chairman), Mr. William Keith Jacobsen and Dr. Leung Ka Kit, with terms of reference in compliance with the Listing Rules. The audit committee review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The audit committee have reviewed the Company's interim report for the six months ended 30 June 2020 and are in the opinion that report has complied with the applicable accounting standards and adequate disclosures have been made.

By Order of the Board
KK Culture Holdings Limited
Tsang Hing Bun
Executive Director

Hong Kong, 25 August 2020

As at the date of this announcement, the Board comprises Mr. Tsang Hing Bun as executive Director; Mr. Yiu Yu Cheung as non-executive Director; and Mr. Chan Chiu Hung, Alex, Mr. William Keith Jacobsen and Dr. Leung Ka Kit, as independent non-executive Directors.