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Transmit Entertainment Limited
傳遞娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$465.5 million for the year ended 30 June 2020, representing a decrease of approximately HK\$202.6 million or 30.3% when compared to the corresponding period of last year while revenue in Hong Kong recorded a year-on-year decrease of approximately HK\$118.2 million or 43.6%.
- The Group reported a loss attributable to owners of the Company of approximately HK\$126.6 million for the year ended 30 June 2020 as compared to a loss of approximately HK\$35.5 million for the corresponding period of last year while the loss of the film exhibition segment in Hong Kong recorded a year-on-year increase of approximately HK\$93.9 million or 286.5%.
- The Group's total assets and net assets as at 30 June 2020 were approximately HK\$1,784.2 million and HK\$205.6 million respectively.
- The Group's proportion of revenue from mainland China increased by 7.3 percentage points year-on-year during the year ended 30 June 2020 from approximately 57.3% of last year to approximately 64.6% of which new business in relation to internet celebrity and fan-driven economy accounted for 4.0% of the total revenue of the Group.
- The pan entertainment and other businesses recorded revenue of approximately HK\$ 18.5 million during the year ended 30 June 2020, representing an increase of approximately 97.5% from approximately HK\$9.4 million as compared to last year.
- The profit of the film, TV series and variety show production and distribution segment during the year ended 30 June 2020 increased by approximately 20.6% to approximately HK\$61.1 million from approximately HK\$50.7 million of last year.

RESULTS FOR THE YEAR ENDED 30 JUNE 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

		2020	2019
	NOTES	HK\$'000	HK\$'000
Revenue	3	465,534	668,130
Cost of sales		<u>(291,830)</u>	<u>(405,843)</u>
Gross profit		173,704	262,287
Other gains and losses	5	(580)	21,055
Other income	5	42,348	11,347
Selling and distribution expenses		(181,793)	(207,271)
Administrative expenses		(60,997)	(67,316)
Net foreign exchange loss		(2,210)	(226)
Impairment loss on property, plant and equipment	10	(2,189)	–
Impairment loss on interests in associates	14	–	(16,317)
Impairment loss on trade receivables under expected credit loss model	16	(2,998)	–
Impairment loss on right-of-use assets	11	(28,895)	–
Fair value change on contingent consideration payable		(6,161)	(20,511)
Finance costs	6	(57,630)	(11,630)
Share of results of associates	14	(855)	(1,484)
Share of results of a joint venture		<u>(6)</u>	<u>97</u>
Loss before tax		(128,262)	(29,969)
Income tax credit (expense)	7	<u>885</u>	<u>(5,719)</u>
Loss for the year	8	<u>(127,377)</u>	<u>(35,688)</u>

	<i>NOTE</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Other comprehensive (expense) income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Reclassification adjustments upon disposal of a subsidiary included in profit or loss		–	165
Reclassification adjustments upon disposal of an associate included in profit or loss		(321)	–
Share of exchange difference of a joint venture arising on translating foreign operation		–	(133)
Share of exchange difference of an associate arising on translating foreign operation		–	305
Exchange difference arising on translating foreign operation		<u>(1,144)</u>	<u>5,266</u>
		<u>(1,465)</u>	<u>5,603</u>
Total comprehensive expenses for the year		<u>(128,842)</u>	<u>(30,085)</u>
Loss for the year attributable to:			
– Owners of the Company		(126,598)	(35,504)
– Non-controlling interests		<u>(779)</u>	<u>(184)</u>
		<u>(127,377)</u>	<u>(35,688)</u>
Total comprehensive expenses for the year attributable to:			
– Owners of the Company		(128,063)	(29,901)
– Non-controlling interests		<u>(779)</u>	<u>(184)</u>
		<u>(128,842)</u>	<u>(30,085)</u>
Loss per share			
Basic (HK cents)	9	<u>(4.88)</u>	<u>(1.37)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	10	74,689	88,281
Right-of-use assets	11	668,311	–
Goodwill	12	448,173	411,876
Intangible assets	13	102,416	5,600
Interests in associates	14	–	8,418
Interest in a joint venture		163	169
Rental deposits		14,878	30,358
Deferred tax assets		297	161
		<u>1,308,927</u>	<u>544,863</u>
Current assets			
Film and television rights	15	–	4,787
Film and television series production in progress	15	163,736	134,203
Inventories		1,249	685
Trade and other receivables	16	126,281	162,719
Contract assets		16,599	–
Rental deposits		13,389	19,163
Tax recoverable		–	713
Financial assets at fair value through profit or loss		7,040	–
Restricted bank balances		13,098	–
Pledged bank deposits		21,667	664
Bank balances and cash		112,263	122,035
		<u>475,322</u>	<u>444,969</u>

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current liabilities			
Trade and other payables	<i>17</i>	215,806	219,555
Contract liabilities		60,695	46,562
Tax payable		5,713	5,585
Bank and other borrowings	<i>18</i>	22,000	65,220
Loans from related companies	<i>19</i>	30,303	64,274
Amount due to a controlling shareholder		27,500	–
Bonds payable		22,000	–
Amount due to a joint venture		385	385
Contingent consideration payable		145,262	139,235
Lease liabilities	<i>20</i>	71,962	–
		<u>601,626</u>	<u>540,816</u>
Net current liabilities		<u>(126,304)</u>	<u>(95,847)</u>
Total assets less current liabilities		<u>1,182,623</u>	<u>449,016</u>
Non-current liabilities			
Deposits received	<i>17</i>	383	950
Bonds payable		29,500	22,000
Bank and other borrowings	<i>18</i>	45,000	–
Loan from a related company	<i>19</i>	89,721	161,695
Contingent consideration payable		103,693	178,155
Deferred tax liabilities		23,231	–
Lease liabilities	<i>20</i>	685,490	–
		<u>977,018</u>	<u>362,800</u>
Net assets		<u>205,605</u>	<u>86,216</u>
Capital and reserves			
Share capital	<i>21</i>	6,489	6,489
Reserves		(44,373)	83,690
(Deficit in shareholder's equity) equity attributable to owners of the Company		(37,884)	90,179
Perpetual bonds	<i>24</i>	204,600	–
Non-controlling interests		<u>38,889</u>	<u>(3,963)</u>
Total equity		<u>205,605</u>	<u>86,216</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Attributable to owners of the Company						Perpetual bonds HK\$'000 <i>(Note ii)</i>	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 <i>(Note i)</i>	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000			
At 1 July 2018	6,489	521,046	10	(3,607)	(403,858)	120,080	-	(3,779)	116,301
Loss for the year	-	-	-	-	(35,504)	(35,504)	-	(184)	(35,688)
Reclassification adjustments upon disposal of a subsidiary included in profit or loss	-	-	-	165	-	165	-	-	165
Share of exchange difference of a joint venture arising on translating foreign operation	-	-	-	(133)	-	(133)	-	-	(133)
Share of exchange difference of an associate arising on translating foreign operation	-	-	-	305	-	305	-	-	305
Exchange difference arising on translating foreign operation	-	-	-	5,266	-	5,266	-	-	5,266
Total comprehensive income (expense) for the year	-	-	-	5,603	(35,504)	(29,901)	-	(184)	(30,085)
At 30 June 2019	6,489	521,046	10	1,996	(439,362)	90,179	-	(3,963)	86,216
Loss for the year	-	-	-	-	(126,598)	(126,598)	-	(779)	(127,377)
Reclassification adjustments upon disposal of an associate included in profit or loss <i>(note 14)</i>	-	-	-	(321)	-	(321)	-	-	(321)
Exchange difference arising on translating foreign operation	-	-	-	(1,144)	-	(1,144)	-	-	(1,144)
Total comprehensive expense for the year	-	-	-	(1,465)	(126,598)	(128,063)	-	(779)	(128,842)
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	5,390	5,390
Acquisition of a subsidiary <i>(note 22)</i>	-	-	-	-	-	-	-	34,278	34,278
Disposal of subsidiaries	-	-	-	-	-	-	-	3,963	3,963
Issuance of perpetual capital securities by subsidiaries <i>(note 24)</i>	-	-	-	-	-	-	204,600	-	204,600
At 30 June 2020	<u>6,489</u>	<u>521,046</u>	<u>10</u>	<u>531</u>	<u>(565,960)</u>	<u>(37,884)</u>	<u>204,600</u>	<u>38,889</u>	<u>205,605</u>

Notes:

- (i) Other reserve represents the difference between the aggregate nominal value of the respective share capital of the companies now comprising the subsidiaries of the Company over the nominal value of the shares of the Company issued pursuant to the group reorganisation completed on 5 October 2012 (the “Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).
- (ii) On 29 June 2020, two wholly-owned subsidiaries of the Company issued perpetual bonds (the “issuers”) amounted to RMB31,000,000 (equivalent to HK\$34,100,000) and RMB155,000,000 (equivalent to HK\$170,500,000), respectively to Guangzhou Puji Real Estate Agency Co. Limited, a related company in which Mr. Zhang Liang, Johnson, the Chairman and an executive director of the Company, has controlling interest, and the perpetual bonds are redeemable at the issuer’s option on or after 28 June 2025. Interests are payable annually in arrears at a fixed rate of 4.5% per annum, which may be deferred at the issuers’ discretion and in which event, the Company and the issuers will not declare or pay any interests or redeem, reduce, cancel or buy back or otherwise acquire any of the Company’s and/or the issuer’s securities of lower or equal rank.

The Group is considered to have no contractual obligations to call its principal or to pay any interests. The perpetual bonds do not meet the definition for classification as a financial liabilities. They are classified as equity instruments and future interests are treated as distribution of dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

1A. GENERAL

Transmit Entertainment Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. The Company’s registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Flat B, 14/F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong. Its immediate and ultimate holding company is Nice Rich Group Limited, a company incorporated in the British Virgin Island (the “BVI”). Its ultimate controlling shareholder is Mr. Zhang Liang, Johnson, who is also the Chairman and an executive director of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries are film and television (“TV”) series production, distribution and licensing of film rights, film exhibition and pan entertainment businesses.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the Company’s functional and presentation currency.

1B. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020, the Company and its subsidiaries (the “Group”) had net current liabilities of HK\$126,304,000 (2019: HK\$95,847,000). The net current liabilities included contract liabilities of HK\$60,695,000 (2019: HK\$46,562,000) which will be recognised as revenue upon the delivery of the film negatives and TV series program to the customers and TV broadcast networks and shall not have any cash outflow to the Group, bank and other borrowings of HK\$22,000,000 (2019: HK\$65,220,000) which was repayable within one year, bonds payable of HK\$22,000,000 (2019: Nil) which was repayable within one year with interest-bearing at 9%, loans from related companies of HK\$30,303,000 (2019: HK\$64,274,000) which were unsecured, interest-bearing at 7% per annum and repayable within one year and an amount due to a controlling shareholder of HK\$27,500,000 (2019: Nil).

In the opinion of the directors of the Company (the “Directors”), after taking into account, among other things, the financial resources available to the Group including the future cash flows to be generated from the film and TV series production and distribution, new facility granted by a related company of RMB45,000,000 (equivalent to HK\$49,500,000) and the unutilised banking facilities amounted to RMB63,000,000 (equivalent to HK\$69,300,000). The Directors are satisfied that the Group will have sufficient working capital to meet its financial obligations and commitments as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis. Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

In addition, the Group has early applied Amendment to HKFRS 16 *Covid-19 – Related Rent Concessions*, which will be mandatorily effective for the annual periods beginning on or after 1 June 2020.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 July 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019. As at 1 July 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 7%.

	At 1 July 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 30 June 2019	1,166,279
Lease liabilities discounted at relevant incremental borrowing rates	815,472
Less: Recognition exemption — leases with lease term ends within 12 months of the date of initial application	(863)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 July 2019	<u>814,609</u>
Analysed as	
– Current	80,202
– Non-current	<u>734,607</u>
	<u>814,609</u>

The carrying amount of right-of-use assets as at 1 July 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	814,609
Adjustment on rental deposits at 1 July 2019 (<i>note a</i>)	21,303
Less: Accrued lease liabilities relating to rent-free period at 1 July 2019 (<i>note b</i>)	<u>(35,467)</u>
	<u>800,445</u>
By class:	
Cinema	797,907
Leased buildings	1,738
Equipment	<u>800</u>
	<u>800,445</u>

Notes:

- a. Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$21,303,000 in aggregate was adjusted to current and non-current refundable rental deposits paid and right-of-use assets.
- b. These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 July 2019 was adjusted to right-of-use assets at transition.

The transition to HKFRS 16 has no impact to the Group's accumulated losses as at 1 July 2019.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 July 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 30 June 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 July 2019 <i>HK\$'000</i>
Non-current Assets			
Rental deposits	30,358	(15,720)	14,638
Right-of-use assets	–	800,445	800,445
Current Asset			
Rental deposits	19,163	(5,583)	13,580
Current Liabilities			
Trade and other payables	219,555	(35,467)	184,088
Lease liabilities	–	80,202	80,202
Non-current liability			
Lease liabilities	–	734,407	734,407

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 30 June 2020, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 July 2019 as disclosed above.

The Group has early applied the amendment to HKFRS 16 in the current year. The application has no impact to the opening accumulated losses at 1 July 2019. The Group recognised changes in lease payments that resulted from Covid-19-related rent concessions of HK\$15,889,000 under other income in profit or loss for the current year.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current and Non-current ⁶
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ⁵
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁵
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 ⁵

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2022.

⁶ Effective for annual periods beginning on or after 1 January 2023.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

Amendments to HKFRS 3 *Definition of a Business*

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The Group will apply the amendments prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the annual reporting period beginning on or after 1 July 2020.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that a liability should be classified as non-current if an entity has the right, the classification should not be affected by management intentions or expectations to settle the liability within 12 months;
- clarify that if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

Based on the Group's outstanding liabilities as at 30 June 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 July 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Film and TV series production, distribution and licensing income	307,144	415,156
Film exhibition income	139,861	243,590
Pan entertainment income	18,509	–
Others	20	9,384
	<hr/>	<hr/>
Total	465,534	668,130
	<hr/>	<hr/>
Timing of revenue recognition		
At a point in time	415,417	643,272
Over time	50,117	24,858
	<hr/>	<hr/>
Total	465,534	668,130
	<hr/>	<hr/>

The contracts for sales of goods and provision of services to external customers are short-term and the contract prices are fixed and agreed with the customers.

- a. Film and TV series production, distribution and licensing
 - i. Income from the distribution of own produced films, variety shows and TV series program is recognised when the production is completed, the films, variety shows and TV series program have been released and distributed to the cinema circuit and TV broadcast networks and the amounts can be measured reliably, which are generally when the cinema circuit and TV broadcast networks confirms to the Group its share of box office receipts and profit entitlement.
 - ii. Income from the licensing of the distribution rights over films and TV broadcast networks are recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives, variety shows and TV series program to the customers and TV broadcast networks.
- b. Film exhibition
 - i. Income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released.
 - ii. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

c. Pan entertainment

Income from pan entertainment services is recognised when the services are delivered to the customers. Revenue is recognised at a point of time when the services are delivered.

d. Others

- i. Revenue from the sale of post-production goods is recognised when the goods are delivered and titles have passed.
- ii. Income from advertising service is recognised upon the provision of the services. Service income is recognised when services are provided.
- iii. Income from the screen advertising is recognised when relevant advertisements and programme are exhibited pursuant to the terms of the relevant agreements.

Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations for film and TV series production, distribution and licensing, film exhibition and others are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance is based on the following four reportable and operating segments identified under HKFRS 8 *Operating Segments* for the Group’s annual financial statements for the year ended 30 June 2020.

- (i) Film and TV series production and distribution;
- (ii) Film exhibition;
- (iii) Pan entertainment; and
- (iv) Others

During the year ended 30 June 2020, the Group commenced the business in pan entertainment through the Group’s PRC subsidiaries.

Segment profit (loss) represent the profit earned or loss incurred by each segment without allocation of certain other gains and losses, other income, certain selling and distribution expenses, certain administrative expenses, certain finance costs, fair value change on contingent consideration payable, gain on disposal of associates, loss on disposal of subsidiaries, share of results of a joint venture and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue and results

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

For the year ended 30 June 2020

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue					
– External customers	<u>307,144</u>	<u>139,861</u>	<u>18,509</u>	<u>20</u>	<u>465,534</u>
Segment profit (loss)	<u>61,149</u>	<u>(126,633)</u>	<u>(23,082)</u>	<u>(1,286)</u>	(89,852)
Unallocated head office and corporate expenses					(27,251)
Fair value change on contingent consideration payable					(6,161)
Finance costs					(3,557)
Gain on disposal of associates					4,258
Loss on disposal of subsidiaries					(4,838)
Share of results of associates					(855)
Share of results of a joint venture					<u>(6)</u>
Loss before tax					<u>(128,262)</u>

For the year ended 30 June 2019

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>415,156</u>	<u>243,590</u>	<u>9,384</u>	<u>668,130</u>
Segment profit (loss)	<u>50,686</u>	<u>(32,764)</u>	<u>(7,939)</u>	9,983
Unallocated head office and corporate expenses				(22,686)
Fair value change on contingent consideration payable				(20,511)
Loss on disposal of property, plant and equipment				(2)
Gain on disposal of subsidiaries				21,057
Finance costs				(106)
Impairment loss on interests in associates				(16,317)
Share of results of associates				(1,484)
Share of results of a joint venture				<u>97</u>
Loss before tax				<u>(29,969)</u>

As the Group's segment assets and liabilities are not regularly provided to the Group's CODM, the relevant analysis for both years is not presented.

Geographical information

An analysis of the Group's revenue from external customers by geographical market based on where the film and TV series production, distribution and licensing income, film exhibition, pan entertainment income and others is derived from are as below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong and Macau	152,836	271,051
The People's Republic of China (the "PRC")	300,873	382,616
South East Asia Region	–	9,554
Others	<u>11,825</u>	<u>4,909</u>
	<u>465,534</u>	<u>668,130</u>

The Group's non-current assets (excluded goodwill, intangible assets, rental deposits and deferred tax assets) by geographical location of the assets are details below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The PRC	6,583	550
Hong Kong	736,580	96,318
	743,163	96,868

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ¹	– ²	78,259
Customer B ¹	85,724	73,560
Customer C ¹	N/A ³	70,913
Customer D ¹	N/A ³	70,378
Customer E ¹	129,351	–

¹ Revenue from film and TV series production and distribution.

² No revenue is recognised in profit or loss for the corresponding year.

³ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. OTHER GAINS AND LOSSES AND OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other gains and losses		
Loss on disposal of property, plant and equipment	–	(2)
(Loss) gain on disposal of subsidiaries	(4,838)	21,057
Gain on disposal of associates (<i>note 14</i>)	4,258	–
	<u> </u>	<u> </u>
	(580)	21,055
Other income		
Handling service income	1,936	4,231
Investment income from investments in film/drama production	–	600
Membership income	864	1,169
Interest income	551	771
Rent concessions	15,889	–
Government subsidy received	3,556	–
Coupon sales income from film producers	3,515	666
Cinema promotion income	4,153	966
Commission income from artiste management	8,001	–
Others	3,883	2,944
	<u> </u>	<u> </u>
	42,348	11,347

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest expenses on:		
Loans from related companies	3,379	10,601
Lease liabilities	49,679	–
Bank and other borrowings	1,030	923
Bonds payable	3,542	106
	<u> </u>	<u> </u>
	57,630	11,630

7. INCOME TAX (CREDIT) EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong Profits Tax		
– current	–	19
– overprovision in prior years	–	(16)
	<u>–</u>	<u>3</u>
PRC Enterprise Income Tax (“EIT”)		
– current	349	5,605
– underprovision in prior years	–	127
	<u>349</u>	<u>5,732</u>
Deferred tax	349	5,735
	<u>(1,234)</u>	<u>(16)</u>
	<u>(885)</u>	<u>5,719</u>

Pursuant to the rules and regulations of Cayman Islands, the Company is not subject to any income tax in Cayman Islands for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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% for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Khorgas special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from its first profit-making year. The enterprises engaged in the encouraged industries as defined under the 《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》(Catalogue of Key Encouraged Developing Industries for Enterprise Income Tax Benefits in Difficult Areas of Xinjiang*). According to 《企業所得稅優惠事項備案表》(Enterprise Income Tax Benefits Record*), one of the Group’s subsidiaries obtained the approval from the PRC tax bureau on 23 June 2017 for entitlement of EIT exemption from 1 January 2017 to 31 December 2020.

* For identification only

8. LOSS FOR THE YEAR

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Directors' emoluments	4,049	5,173
Other staff costs	43,463	39,080
Retirement benefit scheme contributions, excluding those of Directors	<u>2,948</u>	<u>1,985</u>
Total staff costs	<u>50,460</u>	<u>46,238</u>
Auditors' remuneration	2,600	1,850
Depreciation of property, plant and equipment	12,052	14,449
Depreciation of right-of-use assets	109,495	–
Amortisation of intangible assets	4,389	–
Cost of film and television rights recognised as an expense	161,024	269,714
Impairment loss on film and television series production in progress (included in cost of sales)	–	4,412
Impairment loss on property, plant and equipment	2,189	–
Minimum lease payments under operating leases in respect of:		
Premises	–	3,527
Cinemas	–	122,073
Short-term leases rental expenses for premises	1,412	–
Contingent rents incurred for cinemas	585	1,314
Cost of scriptwriters for film and TV series production	20,315	11,500
Cost of services provided for film and TV series production	24,052	–
Cost of services provided for film exhibition	46,944	88,067
Cost of artiste and internet celebrity agency business	33,483	14,056
Cost of inventories sold	<u>2,574</u>	<u>5,058</u>

9. LOSS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(126,598)</u>	<u>(35,504)</u>
	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,595,613,733</u>	<u>2,595,613,733</u>

No diluted loss per share for both years were presented as the Company has no potential ordinary shares to be issued for both 2020 and 2019.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 July 2018	133,567	23,047	1,762	16,119	174,495
Exchange adjustments	–	(1)	–	(2)	(3)
Additions	3,990	250	495	359	5,094
Acquisition of subsidiaries	–	20	–	53	73
Disposals	–	(2)	–	–	(2)
Disposal of subsidiaries	(633)	(62)	–	(6,701)	(7,396)
	<u>136,924</u>	<u>23,252</u>	<u>2,257</u>	<u>9,828</u>	<u>172,261</u>
At 30 June 2019	136,924	23,252	2,257	9,828	172,261
Exchange adjustments	–	(1)	(17)	(4)	(22)
Additions	–	248	650	176	1,074
Acquisition of a subsidiary (<i>note 22</i>)	–	125	–	–	125
Disposals	–	–	(1,761)	(75)	(1,836)
Disposal of subsidiaries	(626)	(139)	–	(1,406)	(2,171)
	<u>136,298</u>	<u>23,485</u>	<u>1,129</u>	<u>8,519</u>	<u>169,431</u>
At 30 June 2020	136,298	23,485	1,129	8,519	169,431
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 July 2018	54,268	9,149	912	11,161	75,490
Exchange adjustments	–	(1)	–	(1)	(2)
Provided for the year	7,026	2,719	271	4,433	14,449
Eliminated on disposal of subsidiaries	(103)	(48)	–	(5,806)	(5,957)
	<u>61,191</u>	<u>11,819</u>	<u>1,183</u>	<u>9,787</u>	<u>83,980</u>
At 30 June 2019	61,191	11,819	1,183	9,787	83,980
Exchange adjustments	–	–	(2)	(1)	(3)
Provided for the year	7,067	4,756	205	24	12,052
Eliminated on disposals	–	–	(1,295)	(20)	(1,315)
Eliminated on disposal of subsidiaries	(626)	(139)	–	(1,396)	(2,161)
Impairment loss recognised for the year	2,059	110	–	20	2,189
	<u>69,691</u>	<u>16,546</u>	<u>91</u>	<u>8,414</u>	<u>94,742</u>
At 30 June 2020	69,691	16,546	91	8,414	94,742
CARRYING AMOUNTS					
At 30 June 2020	<u>66,607</u>	<u>6,939</u>	<u>1,038</u>	<u>105</u>	<u>74,689</u>
At 30 June 2019	<u>75,733</u>	<u>11,433</u>	<u>1,074</u>	<u>41</u>	<u>88,281</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the leases term
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Computer equipment	20%

Due to the unsatisfactory operating results of film exhibition operations under Covid-19 outbreak period, as at 30 June 2020, for the purpose of impairment assessment, the recoverable amount of the property, plant and equipment and right-of-use assets was determined based on value in use calculations of the film exhibition segment which was performed by management of the Company. The calculation uses cash flow projections of the film exhibition segment based on financial budgets approved by the management covering a five to twelve years period with an average revenue growth rate of 5% to 45% (2019: 5% to 40%) and a pre-tax discount rate of 13.00% (2019: 12.97%) per annum as at 30 June 2020. Cash flows beyond the 5-year ended are extrapolated using a steady expected inflation rate of 3% (2019: 3%) per annum. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows of film exhibition segment which include budgeted sales and budgeted costs. Such estimation is based on the film exhibition's past performance and management's expectations for the market development. The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of the film exhibition segment to exceed its recoverable amount.

During the year ended 30 June 2020, the Group recognised an impairment loss of HK\$2,189,000 (2019: Nil) and HK\$28,895,000 (2019: Nil) of property, plant and equipment and right-of-use assets in relation to film exhibition segment, respectively, due to unsatisfactory operating results of film exhibition operations under Covid-19 outbreak period. As a result, the shortfall of recoverable amount, which was determined based on the value in use calculation to carrying amounts of film exhibition segment was recognised as an impairment losses which were allocated to property, plant and equipment and right-of-use assets and charged to profit or loss in the current year.

11. RIGHT-OF-USE ASSETS

	Cinema HK\$'000	Leased buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 July 2019	797,907	1,738	800	800,445
Additions	–	5,199	–	5,199
Acquisition of a subsidiary (<i>note 22</i>)	–	1,059	–	1,059
Exchange adjustments	–	(1)	(1)	(2)
	<u>797,907</u>	<u>7,995</u>	<u>799</u>	<u>806,701</u>
At 30 June 2020	797,907	7,995	799	806,701
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 July 2019	–	–	–	–
Provided for the year	106,725	2,266	504	109,495
Impairment loss recognised in profit or loss	28,895	–	–	28,895
	<u>135,620</u>	<u>2,266</u>	<u>504</u>	<u>138,390</u>
At 30 June 2020	135,620	2,266	504	138,390
CARRYING AMOUNTS				
At 30 June 2020	<u>662,287</u>	<u>5,729</u>	<u>295</u>	<u>668,311</u>
At 1 July 2019	<u>797,907</u>	<u>1,738</u>	<u>800</u>	<u>800,445</u>

For the years ended 30 June 2020 and 2019, the Group leases cinema, leased buildings and equipment for its operations. Lease contracts are entered into for fixed terms of two to fifteen years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period of which the contract is enforceable.

An impairment loss of HK\$28,895,000 (2019: Nil) has been recognised on right-of-use assets during the year ended 30 June 2020. Details of impairment assessment are set out in note 10.

12. GOODWILL AND IMPAIRMENT ASSESSMENT

	Goodwill <i>HK\$'000</i>
COST	
At 1 July 2018	181,084
Arising on acquisition of subsidiaries	<u>411,876</u>
At 30 June 2019	592,960
Exchange adjustments	(17,887)
Arising on acquisition of a subsidiary (<i>note 22</i>)	54,184
Disposal of subsidiaries	<u>(181,084)</u>
At 30 June 2020	<u>448,173</u>
IMPAIRMENT	
At 1 July 2018 and 30 June 2019	181,084
Disposal of subsidiaries	<u>(181,084)</u>
At 30 June 2020	<u>–</u>
CARRYING AMOUNTS	
At 30 June 2020	<u>448,173</u>
At 30 June 2019	<u>411,876</u>

For the purpose of impairment testing, goodwill has been allocated to individual subsidiaries, each of which constitutes a cash generating unit (“CGU”). The carrying amounts of goodwill allocated to these CGUs are as follows:

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Khorgas Houhai Culture Media Company Limited (<i>note a</i>)	393,989	411,876
聞瀾(上海)文化傳媒有限公司 (“Wenlan”) (<i>note b</i>)	54,184	–
Chili Advertising & Promotions Limited (“Chili”) (<i>note c</i>)	–	–
	<u>448,173</u>	<u>411,876</u>

Notes:

- (a) During the year ended 30 June 2019, the Group has acquired the entire equity interest in 霍爾果斯厚海文化傳媒有限公司 (Khorgas Houhai Culture Media Company Limited) and its subsidiary, 北京聚海文化傳媒有限公司 (Beijing Juhai Culture Media Company Limited) (collectively known as the “Khorgas Group”) and goodwill of HK\$411,876,000 was resulted from the acquisition of subsidiaries.
- (b) During the year ended 30 June 2020, the Group has acquired 60% of equity interest in Wenlan and goodwill of HK\$54,184,000 was resulted from the acquisition. Details are set out in note 22.
- (c) On 30 November 2019, the Group entered into an agreement to dispose of the entire equity interest in Chili Advertising and Promotions Limited and its subsidiaries (collectively referred to as “Chili Group”), indirectly wholly-owned subsidiaries of the Company, to an independent third party of the Group, at a cash consideration of HK\$7,000,000. Chili Group was engaged in advertising and marketing business. The disposal was completed on 10 December 2019, on which date when the control of Chili Group passed to the acquirer.

13. INTANGIBLE ASSETS

	Agency contract <i>HK\$'000</i>	Brand <i>HK\$'000</i>	Publishing cooperation agreement <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 July 2018 and 30 June 2019	–	5,600	31,900	37,500
Acquisition of a subsidiary (<i>note 22</i>)	106,805	–	–	106,805
Disposal of subsidiaries	–	(5,600)	(31,900)	(37,500)
	<u>–</u>	<u>(5,600)</u>	<u>(31,900)</u>	<u>(37,500)</u>
At 30 June 2020	<u>106,805</u>	<u>–</u>	<u>–</u>	<u>106,805</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 July 2018 and 30 June 2019	–	–	31,900	31,900
Provided for the year	4,389	–	–	4,389
Eliminated on disposal of subsidiaries	–	–	(31,900)	(31,900)
	<u>–</u>	<u>–</u>	<u>(31,900)</u>	<u>(31,900)</u>
At 30 June 2020	<u>4,389</u>	<u>–</u>	<u>–</u>	<u>4,389</u>
CARRYING AMOUNTS				
At 30 June 2020	<u>102,416</u>	<u>–</u>	<u>–</u>	<u>102,416</u>
At 30 June 2019	<u>–</u>	<u>5,600</u>	<u>–</u>	<u>5,600</u>

Agency contract

The agency contract is a six-year agency contract associated with Ms. Yang Chaoyue (“Ms. Yang”) who is a famous artiste in the PRC which is held by Wenlan, an non-wholly owned subsidiary acquired by the Group on 12 March 2020. It is identified as an intangible asset to the Group at the date of acquisition of Wenlan and it is amortised over 6 years.

14. INTERESTS IN ASSOCIATES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of unlisted investments in associates	–	74,000
Impairment loss recognised	–	(58,963)
	–	15,037
Share of post-acquisition losses and other comprehensive expenses, net of dividend received	–	(6,619)
	–	8,418

Interest in Jade Dynasty Holdings Limited (“JDH”)

On 30 November 2019, the Group disposed of its equity interest in JDH to an independent third party for a cash consideration of HK\$200,000. Before the disposal, the Group owned 40% interest in JDH and the investment was previously accounted for as an investment in an associate using the equity method of accounting. This transaction has resulted in the Group recognising a gain of disposal of HK\$521,000 in profit or loss for the year ended 30 June 2020.

	<i>HK\$'000</i>
Cash consideration	200
Add: reclassification of cumulative exchange reserve upon disposal	321
Less: carrying amount of the 40% investment on the date of disposal	–
Gain recognised in profit or loss	521

Interest in Supreme Art Entertainment Limited (“Supreme Art”)

On 30 November 2019, the Group disposed of its equity interest in Supreme Art to an independent third party for a cash consideration of HK\$8,500,000. Before the disposal, the Group owned 40% interest in Supreme Art and the investment was previously accounted for as an investment in an associate using the equity method of accounting. This transaction has resulted in the Group recognising a gain of disposal of HK\$3,737,000 in profit or loss for the year ended 30 June 2020.

	<i>HK\$'000</i>
Cash consideration	8,500
Less: carrying amount of the 40% investment on the date of disposal	<u>(4,763)</u>
Gain recognised in profit or loss	<u>3,737</u>

The details of the Group’s associates at 30 June 2020 and 2019 are as follows:

Name of associate	Place of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2020	2019	2020	2019	
JDH	BVI	Hong Kong	–	40%	–	40%	Comic publication and owns the intellectual property rights of a data base of comic stories and comic heroes
Supreme Art	Hong Kong	Hong Kong	–	40%	–	33.33%	Artiste management and agency services

15. FILM AND TELEVISION RIGHTS AND FILM AND TELEVISION SERIES PRODUCTION IN PROGRESS

	Film and television rights HK\$'000	Film and television series production in progress HK\$'000
COST		
At 1 July 2018	641,201	175,521
Additions	–	163,139
Acquisition of subsidiaries	–	109,095
Transfer	272,729	(272,729)
Exchange adjustments	–	(948)
	<hr/>	<hr/>
At 30 June 2019	913,930	174,078
Additions	–	190,791
Transfer	156,237	(156,237)
Disposal of subsidiaries	(8,142)	–
Exchange adjustments	–	(5,021)
	<hr/>	<hr/>
At 30 June 2020	1,062,025	203,611
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2018	639,429	35,463
Charged for the year	269,714	–
Impairment loss recognised for the year (<i>note</i>)	–	4,412
	<hr/>	<hr/>
At 30 June 2019	909,143	39,875
Charged for the year	161,024	–
Disposal of subsidiaries	(8,142)	–
	<hr/>	<hr/>
At 30 June 2020	1,063,025	39,875
CARRYING AMOUNTS		
At 30 June 2020	<hr/> – <hr/>	<hr/> 163,736 <hr/>
At 30 June 2019	<hr/> 4,787 <hr/>	<hr/> 134,203 <hr/>

Note: During the year ended 30 June 2020, no impairment loss (2019: HK\$4,412,000) was recognised on the production costs for films and television production in progress. In prior year, management was in a view that the production plan for the films and TV production in progress was postponed and considered that the amount may not be fully recovered as at 30 June 2019.

16. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	81,968	140,348
Less: Allowance for expected credit losses	<u>(2,998)</u>	<u>–</u>
	<u>78,970</u>	<u>140,348</u>
Other receivables, deposits and prepayments	10,038	5,986
Prepayment of interest to bondholders	1,128	884
Prepayment for artiste management agency and scriptwriters	4,160	12,920
Prepayments to suppliers	16,629	–
Other deposits and prepayments for cinema operation	2,213	2,581
Other receivable from TV series producers	8,637	–
Other tax recoverable	<u>4,506</u>	<u>–</u>
	<u>126,281</u>	<u>162,719</u>

The aged analysis of the Group's trade receivables, net of allowance for credit losses, based on the invoice date which approximates the respective revenue recognition dates, at the end of the reporting period is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables:		
0 – 30 days	6,121	18,426
31 – 60 days	5,218	133
61 – 90 days	70	11,888
91 – 180 days	1,093	9,691
181 – 365 days	66,468	97,341
Over one year	<u>–</u>	<u>2,869</u>
	<u>78,970</u>	<u>140,348</u>

Generally, with the exception of PRC TV series production customers and post-production customers, who are generally granted credit period ranging from 30 to 90 days, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

17. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	29,846	48,995
Payables in respect of acquisition of property, plant and equipment	–	10,534
Other payables and accruals	40,008	69,391
Investment funds from investors (<i>note i</i>)	22,481	51,015
Advances from former shareholder of subsidiaries acquired (<i>note iii</i>)	35,068	36,343
Consideration payable in respect of acquisition of a subsidiary (<i>notes 22 and iv</i>)	52,800	–
Deposits received (<i>note ii</i>)	929	1,116
Payable to film producers (<i>note v</i>)	22,729	3,111
Accrued services fee for artiste management and TV series production (<i>note vi</i>)	12,328	–
	<u>216,189</u>	<u>220,505</u>
Less: amount shown under non-current liabilities (<i>note ii</i>)	<u>(383)</u>	<u>(950)</u>
Amount shown under current liabilities	<u>215,806</u>	<u>219,555</u>

The average credit period on purchases of goods is 60 to 90 days. The aging analysis of trade payables presented is based on the invoice date at the end of the reporting period. The following is analysis of the Group's trade payables at the end of the reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 60 days	13,353	32,607
Within 61 to 90 days	–	1
Within 91 to 365 days	16,493	16,387
	<u>29,846</u>	<u>48,995</u>

Notes:

- (i) The investment funds from investors represent the share of return on investment to other investors of TV series produced by the Group.
- (ii) Deposits received represent deposits received from a cinema circuit operator in Hong Kong for a film to be theatrical release in Hong Kong and licensing deposits received from the licensee which are refundable at the expiry of the licenses. As at 30 June 2020, an amount of deposits received of HK\$546,000 (2019: HK\$166,000) will expire in November 2020 (2019: November 2019) and therefore the amount was classified as current liabilities. The amount of HK\$383,000 (2019: HK\$950,000), was to be expired in February 2022, and therefore was classified as non-current liabilities.
- (iii) The advances from former shareholder of subsidiaries acquired were non-trade related, unsecured, interest-free and repayable on demand.
- (iv) The consideration payable in respect of acquisition of a subsidiary represented the acquisition of 60% equity interest in Wenlan in March 2020. As the amount will be settled within one year at the end of reporting period, therefore, it is classified as current liabilities.
- (v) The amounts represented the payable due to the film producers who placed their films to be released in the Group's film exhibition and the films had been completed its theatrical release during the year ended 30 June 2020.
- (vi) The amount represented the accrued services fee payable to the artiste management agency, film director and scriptwriters of TV series production.

18. BANK AND OTHER BORROWINGS

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank borrowings:		
Variable-rate bank borrowing (<i>note 1</i>)	–	22,800
Fixed-rate bank borrowings (<i>note 1</i>)	22,000	3,420
	22,000	26,220
Unsecured other borrowing (<i>note 2</i>)	45,000	39,000
	67,000	65,220

The Group's bank and other borrowings are repayable as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount repayable (based on scheduled repayment terms):		
Within one year or on demand	22,000	65,220
More than one year, but not exceeding two years	45,000	–
	<u>67,000</u>	<u>65,220</u>
Less: Amounts due shown under current liabilities:		
On demand or due within one year	(3,300)	(65,220)
Due within one year and contain a repayment on demand clause	(18,700)	–
	<u>45,000</u>	<u>–</u>

Notes:

- (1) During the year ended 30 June 2020, the Group obtained new bank borrowings amounting to approximately HK\$22,000,000 (2019: HK\$26,220,000) and repaid bank borrowings of HK\$26,220,000 (2019: HK\$12,866,000). The Group's bank borrowings are repayable within one year and denominated in RMB.
- (2) The other borrowing is due to Pure Project Limited in which Mr. Wong has controlling interests during the years ended 30 June 2020 and 2019. Mr. Wong Pak Ming ("Mr. Wong") resigned as the executive director of the Company on 1 April 2019 and therefore, the advance was classified as other borrowing since 1 April 2019. The other borrowing of HK\$39,000,000 as at 30 June 2019 was unsecured interest-free and repayable on demand. During the year ended 30 June 2020, the Group borrowed an additional advance of HK\$6,000,000 from Mr. Wong. As at 30 June 2020, the Group obtained an extension of maturity date of the other borrowing from Pure Project Limited for more than one year and therefore, the other borrowing is unsecured, interest-free and classified as non-current liabilities.

The ranges of effective interest rates (which are also equal to contracted interest rates) per annum on the Group's bank and other borrowings are analysed as follows:

	2020	2019
Fixed-rate bank borrowings: RMB denominated borrowings	4.5% and 4.8%	7.2%
Variable-rate bank borrowings: RMB denominated borrowings		Benchmark Borrowing Rate of the People's Bank of China + 0.91%
	<u>N/A</u>	<u>+ 0.91%</u>

The bank borrowings are secured by bank deposits of HK\$21,000,000 and guaranteed by an insurance company in the PRC (2019: secured by trade receivables of RMB32,627,000 (equivalent to HK\$37,195,000) and guaranteed by an insurance company in the PRC).

19. LOANS FROM RELATED COMPANIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loans from related companies		
– Loan 1 (<i>note i</i>)	–	36,473
– Loan 2 (<i>note ii</i>)	–	161,695
– Loan 3 (<i>note iii</i>)	25,303	27,801
– Loan 4 (<i>note iv</i>)	89,721	–
– Loan 5 (<i>note v</i>)	5,000	–
	120,024	225,969
Analysed as:		
– Current liabilities	30,303	64,274
– Non-current liabilities	89,721	161,695
	120,024	225,969

Notes:

- (i) On 11 January 2019, Guangzhou Daide Management Consultancy Company Limited (“Guangzhou Daide”), a wholly-owned subsidiary of the Company, borrowed an aggregate loan advances of RMB31,000,000 (equivalent to HK\$34,100,000) from Guangzhou Seedland Real Estate Development Limited (“Guangzhou Seedland”), a company in which Mr. Zhang, the controlling shareholder and the executive director of the Company, has controlling interests. The loan advances are unsecured, interest-bearing at 7% per annum and repayable in January 2021. On 1 July 2019, Guangzhou Daide and Guangzhou Seedland signed a supplemental loan agreement to change the interest rate from 7% per annum to zero with all other terms remain constant.

On 25 June 2020, Guangzhou Daide and Guangzhou Seedland entered in a loan assignment agreement with Guangzhou Puji Real Estate Agency Co. Limited (“Guangzhou Puji”), a related company in which Mr. Zhang has controlling interests, that Guangzhou Seedland agreed to assign the outstanding loan principal and accrued interest payable by Guangzhou Daide to Guangzhou Puji.

On 29 June 2020, the shareholders of Guangzhou Daide approved to issue a perpetual bond amounted to RMB31,000,000 (equivalent to HK\$34,100,000) to Guangzhou Puji for the outstanding loan balance owed to Guangzhou Puji, in which the perpetual bond is unsecured, interest-bearing at 4.5% per annum and Guangzhou Daide has the right to defer its repayment of interests payable to Guangzhou Puji. Therefore, the perpetual bond issued by Guangzhou Daide is classified as an equity instrument issued by Guangzhou Daide is classified as an equity instrument issued by the Group.

- (ii) Guangzhou Huohua Investment Company Limited (“Guangzhou Huohua”), a wholly owned subsidiary of the Company, borrowed loan advances of RMB135,000,000 (equivalent to HK\$148,500,000) and RMB20,000,000 (equivalent to HK\$22,000,000), in January 2019 and September 2019 respectively, from Guangzhou Seedland. The loan advances are unsecured, interest-bearing at 7% per annum and the loans amount with interests accrued are repayable in 3 years after the loan’s drawdown date. On 1 July 2019, Guangzhou Huohua and Guangzhou Seedland signed a supplemental loan agreement to change the interest rate from 7% per annum to zero with all other terms remain constant.

On 25 June 2020, Guangzhou Huohua and Guangzhou Seedland entered in a loan assignment agreement with Guangzhou Puji that Guangzhou Seedland agreed to assign the outstanding loan principal and accrued interest payable by Guangzhou Huohua to Guangzhou Puji.

On 29 June 2020, the shareholders of Guangzhou Houhua approved to issue a perpetual bond amounted to RMB155,000,000 (equivalent to HK\$170,500,000) to Guangzhou Puji for the outstanding loan balance owed to Guangzhou Puji, in which the perpetual bond is unsecured, interest-bearing at 4.5% per annum and Guangzhou Houhua has the right to defer its repayment of interests payable to Guangzhou Puji. Therefore, the perpetual bond issued by Guangzhou Houhua is classified as an equity instrument issued by the Group.

- (iii) During the year ended 30 June 2019, Khorgas Houhai Culture Media Company Limited (“Khorgas Houhai”), a wholly owned subsidiary of the Company, borrowed an aggregate loan advances of RMB38,000,000 (equivalent to HK\$43,700,000) from Guangzhou Seedland. The loan advances are unsecured, interest-bearing at 7% per annum and repayable on 31 December 2019. The Group made a partial repayment of RMB15,000,000 (equivalent to HK\$17,250,000) with interest payable to Guangzhou Seedland during the year ended 30 June 2019. Remaining principal amount of RMB23,000,000 (equivalent to HK\$25,300,000) with interest payable was settled in the current year.

During the year ended 30 June 2020, Khorgas Houhai, borrowed a new loan advance of RMB23,000,000 (equivalent to HK\$25,303,000) from Guangzhou Puji. The loan advance is unsecured, interest-bearing at 7% per annum and repayable within one year. Therefore the loan is classified as current liabilities as at 30 June 2020.

- (iv) The balance represents a loan advance of RMB43,520,000 (equivalent to HK\$47,872,000) and a loan advance of RMB35,000,000 (equivalent to HK\$38,500,000) plus an accrued interest of RMB3,044,000 (equivalent to HK\$3,349,000) as at 30 June 2020 from Guangzhou Black Hole Investment Limited (“Black Hole”), a company in which Mr. Zhang has controlling interests. The loan advances are unsecured, interest bearing at 7% per annum and repayable in July 2021 and August 2021, respectively. Therefore, the amount is classified as non-current liabilities at 30 June 2020.
- (v) During the year ended 30 June 2020, borrowed a loan advance of HK\$5,000,000 from Skynova International Limited, a company in which Mr. Zhang has controlling interests. The loan advance is unsecured, interest free and repayable on 31 December 2020. Therefore, the amount is classified as current liabilities at 30 June 2020.

20. LEASE LIABILITIES

Information about leases for which the Group is a lessee is presented below.

	30 June 2020 HK\$'000
Lease liabilities payable:	
Within one year	71,962
Within a period of more than one year but not exceeding two years	99,935
Within a period of more than two years but not exceeding five years	353,191
Within a period of more than five years	<u>232,364</u>
	757,452
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(71,962)</u>
	685,490
Amount due for settlement after 12 months shown under non-current liabilities	<u>685,490</u>

The weighted average incremental borrowing rate applied is 7% per annum.

All lease obligations are denominated in the functional currencies of the relevant group entities.

21. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2018, 30 June 2019 and 30 June 2020	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2018, 30 June 2019 and 30 June 2020	<u>2,595,613,733</u>	<u>6,489</u>

22. ACQUISITION OF A SUBSIDIARY

On 10 September 2019, Guangzhou Daide entered into an equity transfer agreement with a group of third party sellers (the “Sellers”) and Wenlan. Under the agreement, Guangzhou Daide conditionally agreed to acquire, and Chen Jie (the “Seller One”) and 上海艾播文化傳媒有限公司 (Shanghai Aibo Culture Communication Co., Ltd.*) (the “Seller Three”) conditionally agreed to sell, the equity interest collectively hold by Seller One and Seller Three, representing 60% equity interest in Wenlan, at an aggregate consideration of RMB96,000,000 (equivalent to HK\$105,600,000) and 壽瑋達 (the “Seller Two”) and 上海薈喆企業管理中心(有限合夥) (Shanghai Huizhe Enterprise Management Center Co., Ltd.*) (the “Seller Four”) agreed to grant the call option to Guangzhou Daide for purchasing the remaining 40% equity interest in Wenlan (the “Acquisition”).

On the same day, Guangzhou Daide, the Sellers and Wenlan also entered into a profit guarantee agreement, pursuant to which and subject to the completion of the acquisition, the Seller Two and the Seller Four undertake to Guangzhou Daide that the aggregated profit for the profit guarantee period from 1 September 2019 to 31 December 2022 shall be not less than RMB70,000,000. If the profit guarantee condition is met, Guangzhou Daide can exercise its sole and discretionary right for the call option to acquire the 40% equity interest in Wenlan at the consideration set out in the equity transfer agreement. The Acquisition was completed on 12 March 2020. The Acquisition had been accounted for using the acquisition method. Wenlan was principally engaged in the planning of culture and entertainment and the performance agent and the training for music bands businesses.

	30 June 2020 HK\$'000
Consideration transferred	
Cash	52,800
Consideration payable (<i>note 17</i>)	52,800
	<hr/>
Total	105,600

The fair values of net identifiable assets of Wenlan at the date of acquisition (determined on a provisional basis) were as follows:

	At the date of acquisition HK\$'000
Plant and equipment (<i>note 10</i>)	125
Right-of-use assets (<i>note 11</i>)	1,059
Intangible assets (<i>note 13</i>)	106,805
Deferred tax assets	2,414
Trade and other receivables	1,287
Tax recoverable	54
Bank balances and cash	2,589
Other payables	(887)
Lease liabilities	(1,051)
Deferred tax liabilities	(26,701)
	<hr/>
Net assets acquired	85,694

* *For identification only*

Non-controlling interests

The non-controlling interest in Wenlan at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Wenlan and amounted to HK\$34,278,000.

Goodwill arising on acquisition (determined on a provisional basis)

	At the date of acquisition <i>HK\$'000</i>
Consideration transferred	105,600
Plus: non-controlling interests	34,278
Less: net assets acquired	<u>(85,694)</u>
Goodwill arising on acquisition (<i>note 12</i>)	<u>54,184</u>

Goodwill arose in the acquisition of Wenlan because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Wenlan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Besides, the fair value of the call option is not significant and included in goodwill arising on acquisition.

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

	<i>HK\$'000</i>
Net cash outflow arising on acquisition:	
Cash consideration	(52,800)
Cash and cash equivalents acquired	<u>2,589</u>
	<u>(50,211)</u>

The fair value of trade and other receivables amounted to HK\$1,287,000, representing gross contractual amounts at the date of acquisition and contractual cash flows are expected to be fully collected.

The fair value of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separate intangible assets and valuation of the identifiable assets and liabilities.

The acquiree contributed revenue of HK\$1,088,000 and profit of HK\$96,000 to the Group for the period between the date of acquisition and 30 June 2020.

Had the acquisition been completed on 1 July 2019, total group revenue for the year would have been HK\$482,025,000, and loss for the year would have been HK\$125,646,000. The pro forma information is for illustrative purposes 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 on 1 July 2019, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Wenlan been acquired at the beginning of the current year, the Directors have determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

23. RELATED PARTY DISCLOSURES AND NON-CASH TRANSACTION

(I) Transactions

During the year, the Group entered into the following significant transactions with related parties:

Name of related party	Notes	Nature of transaction	2020 HK\$'000	2019 HK\$'000
P M Motion Pictures Limited	(a)	Service income	–	288
Pure Project Limited	(b)	Rental expense	–	708
Mandarin Motion Pictures Production Limited (“Mandarin Motion”)	(c)	Production, film distribution service and film processing service income	–	2,963
		Sale of motor vehicle	466	–
Guangzhou Seedland	(d)	Interest expenses	–	10,601
Black Hole	(d)	Interest expenses	3,379	–

Notes:

- (a) The service income was received from PM Motion Pictures Limited for the Group’s provision of film distribution services. Mr. Wong (who resigned as executive director of the Company on 1 April 2019) has controlling interests in this company.
- (b) The rental expense was paid to Pure Project Limited for the office premise leased by the Group. Mr. Wong (who resigned as executive director of the Company on 1 April 2019) has controlling interests in Pure Project Limited.
- (c) The production, film distribution service and film processing service income were received from Mandarin Motion in which Ms. Wong Kit Fong, the sister of Mr. Wong (who resigned as executive director of the Company on 1 April 2019), has controlling interests.
- (d) The interest expenses were paid to Guangzhou Seedland and Black Hole for the loan advances made to the Group in which Guangzhou Seedland and Black Hole are beneficially owned by Mr. Zhang, the controlling shareholder and the executive director of the Company.

(II) Balances

Details of the loans from related companies are set out in the consolidated statement of financial position and in note 19.

The amount due to a controlling shareholder and amount due to a joint venture is unsecured, interest free and repayable on demand.

(III) Non-cash transaction

During the year ended 30 June 2020, two wholly-owned subsidiaries of the Company issued perpetual bonds amounted to an aggregate amount of RMB186,000,000 (equivalent to HK\$204,600,000) to Guangzhou Puji, a related company in which Mr. Zhang, the controlling shareholder of the Company has beneficial interests in which the perpetual bonds are redeemable at the issuers' option on or after 28 June 2025 and the interests are payable annually in arrears at a fixed rate of 4.5% per annum, which may be deferred at the issuers' discretion. The issue of perpetual bonds are solely for the settlement of the loans principal from Guangzhou Puji and therefore it is considered as a non-cash transaction for the year ended 30 June 2020.

(IV) Compensation of key management personnel

The remuneration of Directors and other key management personnel of the Group during the year was as follows:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other allowances	12,190	12,974
Retirement benefit scheme contributions	369	315
	<u>12,559</u>	<u>13,289</u>

The remuneration of Directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

24. PERPETUAL BONDS

On 29 June 2020, two wholly-owned subsidiaries of the Company issued perpetual bonds (the “issuers”) amounted to RMB31,000,000 (equivalent to HK\$34,100,000) and RMB155,000,00 (equivalent to HK\$170,500,000), respectively to Guangzhou Puji, a related company in which Mr. Zhang, the controlling shareholder and the executive director of the Company has controlling interest, and the perpetual bonds are redeemable at the issuers’ option on or after 28 June 2025. Interests are payable annually in arrears at a fixed rate of 4.5% per annum, which may be deferred at the issuers’ discretion and in which event, the Company and the issuers will not declare or pay any interests or redeem, reduce, cancel or buy back or otherwise acquire any of the Company’s and/or the issuer’s securities of lower or equal rank.

The Group is considered to have no contractual obligations to call its principal or to pay any interests. The perpetual bonds do not meet the definition for classification as financial liabilities. They are classified as equity instruments and future interests are treated as dividends distribution.

25. DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

26. EVENT AFTER THE REPORTING PERIOD

The outbreak of the Coronavirus Disease (the “COVID-19”) in early 2020 has impacted the Group’s operations. Local residents have reduced social activities including attending cinema screenings since the start of the COVID-19 outbreak. In addition, Hong Kong Special Administrative Region government implementation of the safe distancing measures including closure of all cinemas for the period of 29 March to 7 May 2020 and 15 July to 27 August 2020. Given the dynamic nature of these circumstances, the Directors will continue to assess the financial effects on the Group’s financial position and operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) film, TV series and variety show production and distribution; (ii) film exhibition; (iii) pan entertainment; and (iv) other businesses. The Group mainly produces Chinese films, variety shows and TV series in both mainland China and Hong Kong. It also operates five Hong Kong based cinemas. As the Novel Coronavirus Disease (COVID-19) has caused uncertainties for the global business environment, more consumers are inclined to enjoy home entertainment, thereby further stimulating the needs of online stream, short videos, internet dramas and online shopping and making a positive contribution to the digital transformation of traditional film and television production industry. Therefore, the Group further implemented the development strategy in relation to the stay-at-home economy and brand diversity during the year under review. During the year under review, the Group's proportion of revenue from mainland China increased by 7.3 percentage points year-on-year and rose to approximately 64.6% from approximately 57.3% last year. Mainland China continues to be the major source of the Group's revenue and business growth.

Film, TV series and variety show production and distribution

In view of keeping abreast of the industry development dynamics and iterative updates on audience entertainment preference, the Group is particularly cautious about the selection of theme and genre of film and television as well as investment attitudes. The Group has attached greater importance to the review and consideration of possible operational risks resulting from operation cycles and inflexible capital. Hence, the Group has gradually shifted its business focus to other business models such as online variety shows and short videos which have shorter operation cycles and lower capital turnover requirements but greater flexibility. For the year ended 30 June 2020, film, TV series and variety show production and distribution business remained as the core business of the Group with reported revenue of approximately HK\$307.1 million, representing a decrease of approximately 26.0% as compared to last year, mainly due to the decrease in the revenue generated from the film production, distribution and licensing as there was no new movie released by the Group during the year under review whereas two films, namely "L Storm" (L 風暴) and "The Invincible Dragon" (九龍不敗), were released in the previous year.

During the year under review, the juvenile social romantic variety show developed and produced by the Group, namely “I Love You, Me Too” (喜歡你，我也是) Season 2, was broadcasted on the online video platform iQIYI. The show drew persistent heated discussion from viewers on multiple online social platforms such as Weibo, Quora, Douban and Douyin and achieved remarkable performance by becoming one of the hot searches on various hot rankings such as “Iqiyi Variety Champion Ranking” (愛奇藝風雲榜), “Weibo Hot Searches” (微博熱搜榜) for over 400 times. In addition, the 24-episode new urban idol drama of “Fox Romance” (狐狸的浪漫史) directed by Yanqian Li (李雁倩) started shooting in May 2020 and is expected to be broadcasted on the online video platform Mango TV in the coming year with estimated revenue.

In respect of film direction business, “Well-Dominated Love” (奈何BOSS又如何) produced by Wu Qiang (吳強) was broadcasted on the online video platform Mango TV with accumulated play of over 1 billion and attracted widespread attention on various Internet platforms, among which, Weibo and 微指數峰值 recorded over 0.8 billion and 660,000 views respectively. Maoyan popularity index also recorded continuous growth for the show. Meanwhile, the urban love drama “Miss Crow With Mr Lizard” (烏鴉小姐與蜥蜴先生) directed by Wu Qiang started shooting in May 2020 and was completed in July 2020. The show is expected to be broadcasted on Tencent Video exclusively in the coming year with estimated revenue. Furthermore, the film “My People, My Homeland” (我和我的家鄉) in collaboration with Huan Shu (束煥) as a joint director was scheduled to be released during the National Day in 2020.

Film exhibition

During the year under review, the consumption sentiment of Hong Kong citizens continued to be weakened due to local social movements in Hong Kong during the second half of 2019 and the outbreak of novel coronavirus (COVID-19) during the first half of 2020. The prevention and control measures as well as social distancing measures in relation to the pandemic on public entertainment places such as cinemas implemented by the Hong Kong government caused a tremendous negative effect on our operation. The Group’s segment business of film exhibition encountered unprecedented challenges. The business of cinemas under the Group was suspended on occasion during the second half of 2019 and the period from March to June 2020, resulting in a substantial decline in cinemagoers during the year under review as compared to the previous year. The revenue from the Group’s film exhibition decreased by approximately 42.6% to approximately HK\$140.0 million as compared to last year, accounting for approximately 30.0% of total revenue of the Group.

Along with the epidemic development, the Group observed a gradual change in film watching and consumption behaviors from the public as well as more time spent at home to watch films and enjoy other leisure activities. The Group's management is continuously assessing the impact of the epidemic on the film exhibition segment and proactively exploring the future development prospect of this business segment. The Group's management is conservative whether the number and the frequency of film in cinemas will be fully restored after the pandemic. The Group's management will keep continuous attention on the change of situation and make timely response and adjustments in the future.

Pan entertainment and other businesses

During the year ended 30 June 2020, the Group continuously forged the collaborative relationship with several artistes, internet celebrities and artiste agency and launched its first self-owned retail brand in order to moderately enlarge the scale of film and television intellectual property (IP) derived products and e-commerce business and therefore further optimize the industry chain layout and diversify the revenue base. During the year under review, advertising, marketing and publication and pan entertainment businesses of the Group recorded a total revenue of approximately HK\$18.5 million, representing an increase of approximately 97.5% as compared to approximately HK\$9.4 million last year. This business segment recorded loss of approximately HK\$24.4 million during the year under review (2019: loss of approximately HK\$8.5 million).

In respect of artiste and celebrity agency business, the Group completed the acquisition of 60% equity interests of 聞瀾(上海)文化傳媒有限公司 (Wenlan (Shanghai) Culture Communication Co., Ltd.*) ("Wenlan Culture") during the year under review. In addition, the Group tapped into the booming popular idol group industry in area of the China's film and television culture and obtained the commercial performances license* (營業性演出許可證) held by Wenlan Culture so as to greatly enhance the Group's business value and brand influence. Wenlan Culture is a professional team focusing on the planning of culture and entertainment, the performance agent and the training for music bands businesses. CH2, which is the music girl group under Wenlan Culture, involves Ms. Yang Chaoyue* (楊超越) as the key member. Ms. Yang debuted as a member of Rocket Girls 101* (火箭少女101) of pop music girl group in mainland China after attending Tencent's girl group talent show Produce 101* (創造101) and was named by Artiste of the Year 2018* [影響中國(2018年度演藝人物)].

During the year under review, Guangzhou Daide Management Consultancy Company Limited, a wholly-owned subsidiary of the Group, and Beijing iQIYI Science & Technology Co., Ltd. jointly established 天津傳遞愛娛文化有限公司 (Tianjin Chuan Di Ai Yu Culture Limited*) to further develop celebrity agency business, in which, the Group had 51% equity interest. The Group's management believes that the establishment of the joint venture will help the Group realize the integration of artiste and celebrity resources and leading film and television platform resources and traffic monetization from its self-owned brands and distributor brands by leveraging artiste and celebrity influence in various market segments as well as its production capabilities to boost the performance of conventional consumer sectors, thereby persistently expanding business scale of the Group's Multiple Channel Network (MCN).

In the meantime, celebrities Lusi Zhao (趙露思) and Li Yi Tong (李一桐) drew massive attention due to their outstanding performance in popular TV series. For instance, the impressive performance of Lusi Zhao in "The Romance of Tiger and Rose" (傳聞中的陳芊芊) contributed to satisfactory results where she ranked fourth in both the most popular actress of More TV and Guduo Popularity Index Ranking* (骨朵熱度指數排行榜霸屏榜). On the other hand, a number of TV series in which Li Yi Tong performed were officially broadcasted including "Dt.Appledog's Time" (親愛的摯愛的), "Dear Missy" (了不起的女孩) and "Don't Think Twice, Love's All Right" (愛我就別想太多) and became the center of attention once again. Among which, "Don't Think Twice, Love's All Right" ranked first for three consecutive weeks in terms prime time viewership on provincial satellite channels and hit a record high in the "Popularity Rating" (熱度值) on the online video platform namely, Youku.

In respect of self-owned retail brand, the Group promoted its new self-owned tea brand "蜜切觀茶 EYETEA" to young consumer groups during the year under review. Our first White Peach Oolong and Grape Oolong have been officially launched on Taobao official brand stores. Through the collaboration with celebrities with millions of subscribers on Weibo and Douyin as well as promotion in the variety show "I Love You, Me Too" Season 2, our brand gained rapid recognition and market attention.

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group for the year under review amounted to approximately HK\$465.5 million, representing a decrease of approximately HK\$202.6 million or 30.3% as compared to last year, mainly contributed by revenue from the business segment of film, TV series and variety show production and distribution and film exhibition of approximately HK\$307.1 million and HK\$139.9 million, respectively. The revenue generated from the film production, distribution and licensing declined since there was no new movie released by the Group during the year under review whereas two films, namely “L Storm” (L 風暴) and “The Invincible Dragon” (九龍不敗), were released last year. For the film exhibition segment, the revenue in film exhibition business reduced due to the drop in the cinemagoers resulting from the prevention and control measures in relation to COVID-19 and the weakened consumption sentiment.

Gross profit of the Group was approximately HK\$173.7 million, representing a decrease of approximately HK\$88.6 million or approximately 33.8% as compared to last year. Gross profit margin for the year under review was approximately 37.3%, representing a slight decrease as compared to approximately 39.3% for the previous year.

Other gains and losses and other income

During the year under review, other gains and losses and other income was approximately HK\$41.8 million, representing an increase of HK\$9.4 million or approximately 28.9% as compared to last year, which was mainly due to rent concessions for cinemas offered by property owners.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$25.5 million or 12.3% from approximately HK\$207.3 million for the previous year to approximately HK\$181.8 million for the year under review. This was mainly due to the recognition of depreciation of right-of-use assets of HK\$109.5 million and interest expenses of lease liabilities during the year under review as a result of the effect of the adoption of the new accounting standard Hong Kong Financial Reporting Standard 16 Leases (“HKFRS 16”) whereas the interest expenses of lease liabilities of HK\$49.7 million were included in financial costs during the year under review. In the previous year, only rental expense of HK\$122.1 million was recognised in selling and distribution expenses.

Administrative expenses

Administrative expenses decreased by approximately HK\$6.3 million or approximately 9.4% from approximately HK\$67.3 million for the previous year to approximately HK\$61.0 million for the year under review.

Share of results of associates

During the year under review, share of loss of associates represented the loss incurred by Supreme Art in the year under review. In addition, the Group disposed of the entire interest of Supreme Art and JDH during the year under review.

Loss for the year under review

The Group's loss and total comprehensive expense attributable to owners of the Company for the year under review amounted to approximately HK\$126.6 million (30 June 2019: loss of approximately HK\$35.5 million) and approximately HK\$128.1 million (30 June 2019: total comprehensive expense of approximately HK\$29.9 million) respectively.

It was mainly caused by (i) severe delay of TV series and variety show production projects conducted by the Group for the year due to the effect of mandatory work suspension as a result of COVID-19, therefore this segment revenue was recognised later than expected; (ii) film exhibition business was sluggish resulting in lower income due to the effects of relevant policies in relation to COVID-19 and the market sentiment; and (iii) the application of HKFRS 16 ("HKFRS 16"), which results in a higher total charge to the statement of profit or loss in the first few years of the lease, and such expenses will decrease during the latter part of the lease terms. There is no impact on the cumulative expenses recognised during the remaining lease terms since the adoption date of HKFRS 16. Accordingly, the effects of the application of HKFRS 16 resulted in an increase in corresponding expenses recognised during the year as the Group currently operates numerous cinemas in Hong Kong.

Impairment Loss on Right-of-use Assets and Property, Plant and Equipment (“Impairment”)

Background

As disclosed in note 2.1, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 July 2019 to recognise right-of-use assets of HK\$800.4 million mainly represented the lease agreements of five cinemas in Hong Kong which were previously classified as operating leases under HKAS 17.

The Impairment was made on right-of-use assets derived from the lease agreements of numerous cinemas in Hong Kong operated by the Group (the “Cinemas”) and property, plant and equipment in relation to the Cinemas, which was determined after considering the difference between the recoverable amount based on value in use calculations and the carrying value as at 30 June 2020. The cinemas located in Hong Kong, have been operating for years and the management assessed the income to be generated therefrom after taking into account of the factors explained in the section headed “Circumstances leading to the Impairment” below.

The relevant cinemas (not including the buildings) were developed by the Group on its own and were not acquired from third parties, and the relevant right-of-use assets and property, plants and equipment in relation to the Cinemas were acquired at various time from the relevant suppliers in the course of the establishment of the Cinemas.

Circumstances leading to the Impairment

At the year ended 30 June 2020, the management of the Company assessed the carrying value and recoverable amount of the right-of-use assets and property, plants and equipment in relation to the Cinemas after taking into account of the following factors:

- (a) the global economic downturn since mid-2019 which leads to the expected decline of occupancy rate of the Cinemas;
- (b) the change of the movie industry atmosphere in Hong Kong and the expected slowdown in shooting of international blockbuster movie, and thus the expected decline in the box office in the forthcoming year;
- (c) the adverse impact due to the social movement since the second half of 2019, which results in less cinemagoers;

- (d) the adverse impact due to the outbreak of novel coronavirus disease (the “COVID-19”) since the first quarter of 2020, which results in less cinemagoers;
- (e) the review and comparison of the budget of the Cinemas prepared for the period under review and the actual income and profit generated from the Cinemas during the period, and found that there is a material shortfall from the projected income and operating profit; and
- (f) the need to adopt a reasonable approach in evaluating the cashflow to be generated from the cinema operation by the adoption of a pre-tax discount rate of 13% with reference to the use of weighted average costs of capital when the recoverable amount was determined based on value in use calculations.

The above factors were identified close to the end of the year ended 30 June 2020 and assessed and considered during the course of the preparation of the annual financial information of the Company for the year ended 30 June 2020. The above factors were not anticipated nor taken into account when the development plan of the relevant Cinemas was implemented.

The method, basis and key assumptions used in determining the amount of the Impairment and the recoverable amount

The Impairment relied on the assessment based on the discount cashflow method (“DCF”). DCF is adopted because:

- (a) the entire carrying amount of the right-of-use assets and property, plants and equipment was tested for impairment in accordance with the HKAS 36 issued by the HKICPA by comparing its recoverable amount with its carrying amount; and
- (b) the Group adopted the DCF method under the income-based approach in arriving at the value in use. According to the HKAS 36, measuring value in use of an entity should consider an estimate of the future cash flows the entity expects to derive from the asset. Therefore, the Company adopted the DCF and that the asset-based approach and market based approach were not applicable.

The basis and key assumptions used in the assessment are as follows:

- (a) the Group recognised the impairment loss on right-of-use assets and property, plants and equipment due to the deteriorating economic environment and intense competition in the market of cinema and film exhibition;
- (b) the economic downturn will be a mid-to-long term one and the performance of occupancy rate of the cinema and the box office will not rebound in a short period taking into account the declining economic performance of Hong Kong and the PRC and the uncertainties brought by the increase of the trade war between the United States of America and the PRC as well as the outbreak of COVID-19;
- (c) the interest rate of the banking facilities obtained by the Group for the operation of the Cinemas will not decrease substantially in the foreseeable period and hence affecting the discount rate used when adopting the DCF approach; and
- (d) for the impairment testing, the recoverable amount was determined based on value in use calculations which was performed by management. The calculation uses cash flow projections of the Group based on financial budgets approved by the management of the Company covering a lease term period of the Cinemas and a pre-tax discount rate of 13%. The key assumption includes the future expected cash flows based on management's view of future business prospects and past performance of the Group.

Taking into account of the above factors and the reasonable approach in adopting the relevant accounting standard and the discount rate which is more suitable when making cash flow projections, the Board considers that the Impairment is fair and reasonable.

The Company intends to continue with the operation of the Cinemas which are self-developed, but it will monitor closely the business performance of the Cinemas from time to time and formulate appropriate business strategy for the cinema or to realise the investment if suitable opportunity arises.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group's bank balances and cash amounted to approximately HK\$112.3 million (30 June 2019: approximately HK\$122.0 million), which are denominated mainly in HK\$, United States Dollar ("US\$") and Renminbi ("RMB").

As at 30 June 2020, the Group's total debts, including bank and other borrowings, bonds payable, loans from related companies and amount due to a controlling shareholder amounted to approximately HK\$67.0 million, approximately HK\$51.5 million and approximately HK\$147.5 million, respectively (30 June 2019: approximately HK\$65.2 million, approximately HK\$22.0 million and approximately HK\$226.0 million, respectively). As at 30 June 2020, the gearing ratio, representing the ratio of total debts to the total assets, was approximately 14.9% (30 June 2019: approximately 31.6%).

On 16 May 2019, 16 September 2019 and 24 February 2020, the Group and Royston Securities Limited (the "Placing Agent") entered into a placing agreement, pursuant to which the Placing Agent conditionally agreed to procure, on a best efforts basis, places to subscribe in cash for the bonds in an aggregate principal amount of up to HK\$150,000,000 during the placing period. Details of the placing of bonds are set out in the announcements of the Group dated 16 May 2019, 16 September 2019 and 24 February 2020 respectively. As at 30 June 2020, the Group's bonds payable amounted to approximately HK\$51.5 million.

As at 30 June 2020, the Group had total non-current assets of approximately HK\$1,308.9 million (30 June 2019: approximately HK\$544.9 million), net current liabilities of approximately HK\$126.3 million (30 June 2019: net current liabilities of approximately HK\$95.8 million) and net assets of approximately HK\$205.6 million (30 June 2019: approximately HK\$86.2 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 0.8 as at 30 June 2020 (30 June 2019: approximately 0.8).

During the year under review, the Group mainly funded its liquidity by the net proceeds from the Listing, bank and other borrowings, bonds payable, loans from related companies and an amount due to a controlling shareholder, and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

MATERIAL ACQUISITIONS AND DISPOSALS

On 10 September 2019, Guangzhou Daide Management Consultancy Company Limited (“Guangzhou Daide”) entered into an equity transfer agreement with a group of third party sellers (the “Sellers”) and 聞瀾(上海)文化傳媒有限公司 (Wenlan (Shanghai) Culture Communication Co., Ltd.*) (the “Target Company”). Under the agreement, Guangzhou Daide conditionally agreed to acquire, and Chen Jie (the “Seller One”) and 上海艾播文化傳播有限公司 (Shanghai Aibo Culture Communication Co., Ltd.*) (the “Seller Three”) conditionally agreed to sell, the equity interest collectively held by Seller One and Seller Three, representing 60% equity interest in the Target Company, at an aggregate consideration of RMB96,000,000 (equivalent to HK\$105,600,000) and Shou Weida (壽瑋達) (the “Seller Two”) and 上海薈喆企業管理中心(有限合夥)(Shanghai Huizhe Enterprises Management Center Co., Ltd.*) (the “Seller Four”) agreed to grant the call option to Guangzhou Daide for purchasing the remaining 40% equity interest in the Target Company.

On the same day, Guangzhou Daide, the Sellers and the Target Company also entered into a profit guarantee agreement, pursuant to which and subject to the completion of the acquisition, the other two of the Sellers undertake to Guangzhou Daide that the total aggregated profit for the profit guarantee period from the completion date to 31 December 2022 shall be not less than RMB70,000,000. The Company will disclose whether the actual performance of the Target Company meets the guarantee in due course.

The Target Company is a company established in Shanghai with limited liabilities and is principally engaged in the planning of culture and entertainment, the performance agent and the training for music bands businesses. In 2016, the Target Company was the appointed manager of the music band group named, CH2 Girls Group, which includes Ms. Yang Chaoyue* (楊超越) (“Ms. Yang”) as the key member. Ms. Yang is a Chinese teen idol member and signed the artiste management contract with the Target Company. She debuted as a member of Rocket Girls 101* (火箭少女101) after attending Tencent’s girl group talent show Produce 101* (創造101) and was named by Artiste of the Year 2018* “影響中國(2018年度演藝人物)”. The acquisition was completed on 12 March 2020 and was accounted for using the acquisition method.

In May 2020, Guangzhou Daide and Beijing iQIYI Science & Technology Co., Ltd. jointly established 天津傳遞愛娛文化有限公司 (Tianjin Chuan Di Ai Yu Culture Limited*) to collaboratively develop celebrity agency business, in which, the Group had 51% equity interest. In addition, the Group disposed of its associates during the year under review. For details, please refer to note 14.

Save as disclosed above, there were no other significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group for the year ended 30 June 2020 and there was no plan authorized by the Board for material investments or additions of capital assets during the year ended 30 June 2020.

HUMAN RESOURCES

As at 30 June 2020, the Group employed a total of 308 permanent employees (30 June 2019: 260) in the PRC and Hong Kong. The total salaries and wages, including the Directors' remuneration and part-time workers' salary, amounted to approximately HK\$50.5 million during the year ended 30 June 2020 (30 June 2019: approximately HK\$46.2 million).

The Group offers remuneration packages for employees mainly based on their performance and experience, and with reference to prevailing industry practices. In addition to enrolling our new employees into the mandatory provident fund scheme in Hong Kong and State-managed pension scheme in mainland China and making contributions for them on a periodic basis, the Group also provides medical coverage, internal and external training programs and grants share options and discretionary bonuses to employees based on employees' individual performance and the Group's overall performance. The Group reviews the remuneration policies and packages on a regular basis.

CHARGE ON ASSETS

As at 30 June 2020, the Group had bank deposits amounting to approximately HK\$0.7 million (30 June 2019: approximately HK\$0.7 million) that were pledged to a bank for the bank guarantee provided to a subsidiary of the Group regarding its due payment under a cinema equipment rental agreement. The Group's bank borrowings were secured by bank deposits of HK\$21,000,000 and guaranteed by an insurance company in the PRC (2019: trade receivables of RMB32,627,000 (equivalent to HK\$37,195,000) and guaranteed by an insurance company in the PRC).

TREASURY POLICY

The Group's business operations were conducted mainly in mainland China and Hong Kong with transactions principally denominated in HK\$, US\$ and RMB. The monetary assets and liabilities are denominated mainly in HK\$, US\$ and RMB. Apart from HK\$, which is pegged to US\$, any significant exchange rate fluctuations of HK\$ against RMB may have a financial impact on the Group. As the foreign exchange risks arising from sales and purchases can be eliminated against each other, and the fluctuations of RMB during the year had no significant impact on the costs and operations of the Group for the year, the Directors do not foresee significant risk in exchange rate fluctuation. Currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

CAPITAL COMMITMENT

There were no other capital commitments for the Group as at 30 June 2019 and 2020.

CONTINGENT LIABILITIES

As at 30 June 2019 and 2020, the Group did not have any significant contingent liabilities.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 30 June 2020 (30 June 2019: Nil).

USE OF PROCEEDS FROM THE LISTING

The planned use of proceeds from the Listing as disclosed in the prospectus of the Company dated 9 October 2012 (the “Prospectus”) were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied in accordance with the actual development of the market. At as 30 June 2020, the reallocated total use of proceeds from the Listing had been applied as follows:

	Reallocated total use of proceeds from the Listing HK\$ million	Actual use of proceeds from the date of the Listing to 30 June 2020 HK\$ million
Expansion of film production business	58.4	58.4
Investment in equipment for post-production	7.4	7.4
Staff recruitment	2.8	2.8
General working capital	4.9	4.9
Total	<u>73.5</u>	<u>73.5</u>

During the year ended 30 June 2020, the remaining balance of the proceeds from the Listing of approximately HK\$2.4 million were utilised as general working capital as intended, including staff costs and general office expenses. All of the net proceeds raised from the Listing were utilised in accordance with the plans of the Company as previously disclosed in the Prospectus and the announcement of the Company dated 10 June 2019.

OUTLOOK

Looking forward, the Group will continue to focus on the development of film and television production business as well as artiste and celebrity agency business in mainland China. Besides, the Group strives to develop pan entertainment business and integrate upstream and downstream industry chains by proactively exploring various realization channels from downstream industry chains in a bid to attain our tactics goals with the combination of our strengths and resources. Taking advantages of online platforms to cultivate new artistes and celebrities, the Group will also proactively explore and develop its self-owned retail brand targeting young consumers to further diversify the revenue base by continuously identifying business opportunities in relation to the stay-at-home economy on four aspects including online stream, short videos, celebrity cultivation and traffic monetization. The Group’s management

believes that new business model will generate sustainable synergy with the existing resources on film, television and variety show along with the escalating growth of consumption demands of domestic online entertainment and the rapid development of social e-commerce markets. The Group is committed to fulfilling young female group requirements of the life quality enhancement and the consumption needs of designer brand by leveraging market segments in relation to beauty and lifestyle where there are more female participants by way of precise marketing strategies of online content promotion, thereby creating more development opportunities in the pan entertainment business.

In respect of film, TV series and variety show production and distribution, a number of projects of the Group are currently under preproduction stage, including “The Ideal City” (理想之城), an inspiring urban workplace TV series, “Fox Romance” (狐狸的浪漫史), a new urban idol drama, “Redemption on the Blade” (刀鋒上的救贖), a mystery detective drama, “Young at Style” (潮流出動), an online variety show and “I Love You, Me too” Season 3. Among which, the inspiring urban workplace TV series “The Ideal City” will start shooting in the second half of 2020, in which, Sun Li (孫儷) and Zhao You Ting (趙又廷) who are both well-known actors for protagonists, Liu Jin (劉進) who is the winner of Magnolia Award and Wu Zhaolong (吳兆龍) who is well-known for production will play a main character, act as a director and is responsible for scriptwriting respectively. With the good performance and network popularity of the first season and the second season, the Group is also considering to produce the third season of “I Love You, Me Too” in order to create a self-developed multi-season variety show brand. In addition, the Group will develop the production of a series of popular copyrights including “Love Destiny” (愛有天意), “Ruyi Dan” (如意蛋), “Romance in the City” (半城風月), “Peach blossom debt” (桃花債), “Holding My Koi Husband” (抱住錦鯉相公), “Locard’s theory” (洛卡爾定律), “Flower Throne” (鮮花寶座) and “Marry Me Today” (今天開始成為夫妻).

In respect of self-owned retail brand, following the initial launch of White Peach Oolong and Grape Oolong, the brand of “蜜切觀茶EYETEA” will continue to put various tastes of the tipsy type and the fruity type on the market in order to offer more options for consumers. Moreover, the Group will release multiple brands step by step according to the elaborated plan in relation to products for the second half of 2020 including a teen trend lifestyle brand, a high-class stylish unisex cosmetic brand and a delicate cosmetic brand with the aim to attract fashion aficionados aged between 20 and 40 by way of the personalized product designs and differentiated brand positions. The Group will continuously enhance brand recognition and business values through social media such as Taobao, Weibo, Douyin and Little Red Book and endorsement from artistes and celebrities. By leveraging its popular comprehensive copyright reserves of film, television and variety show, quality content creation teams, full industry chain resources of cash-generating well-known celebrities and low costs of celebrity cultivation, the Group’s self-owned retail brand is expected to become the influential figure for artistes and celebrities and forge the collaborative relationship between its internal film and television copyright and external brands. As a result, the Group not only frequently provides unique and quality service experience for customers but also further demonstrates to the public its efforts on the pan entertainment sector and its strategic planning for long-term development.

Note that the Group made adjustment to its original relevant debt after the approval of the substantial shareholder during the year under review including no specified repayment date and significant decrease in fixed interest level. The debt adjustment indicates that the substantial shareholder is optimistic about the Group’s future development and provides strong support to the Company’s result growth in the future.

As a diverse development enterprise focusing on film, television and variety show content creation and production with the spirit of business value “Enabling”, the Group will make good use of combined resources of scriptwriting, direction and celebrity to cultivate, explore and create popular films and television copyrights by continuously offering quality content and nurturing talented artistes in order to develop its self-owned full industry chain model and construct an unique soft-power moat, thereby continuously enhancing profitability, sharpening competitive edges in the industry and generating favorable returns for the Group’s shareholders.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 30 June 2020.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. The Company complied with all the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year ended 30 June 2020.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made all reasonable enquires, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 30 June 2020.

EVENTS AFTER REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into an extension agreement with a placing agent on 21 August 2020. Such extension agreement was supplemental to a proposed placing of bonds in the aggregate principal amount of up to HK\$150,000,000 pursuant to a placing agreement dated 24 February 2020, it was agreed that the termination date of the placing period of the bonds shall be extended from 23 August 2020 to 23 February 2021.

The outbreak of the Coronavirus Disease (the “COVID-19”) in early 2020 has impacted the Group’s operations. Local residents have reduced social activities including attending cinema screenings since the start of the COVID-19 outbreak. In addition, Hong Kong Special Administrative Region government implementation of the safe distancing measures including closure of all cinemas for the period of 29 March to 7 May 2020 and 15 July to 27 August 2020. Given the dynamic nature of these circumstances, the Directors will continue to assess the financial effects on the Group’s financial position and operating results.

AUDIT COMMITTEE

The Audit Committee (“Audit Committee”) has three members comprising three independent non-executive Directors, namely Mr. Chang Eric Jackson (Chairman of the Audit Committee), Mr. Wang Bo and Mr. Xiang Feng, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are mainly to communicate with external auditors; to review the remuneration, terms of engagement, independency and objectivity of the external auditors; to review the accounting policy, financial position and financial reporting procedures of the Company; and to review and assess the financial reporting, risk management and internal control systems of the Company and making recommendation thereof. The final results of the Group for the year ended 30 June 2020 have been reviewed by the Audit Committee and a meeting of the Audit Committee has been held with the Company’s auditor for reviewing the final results of the Group for the year ended 30 June 2020.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related Notes thereto for the year ended 30 June 2020 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an 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 HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on Friday, 27 November 2020 at 3:00 p.m. The register of members of the Company will be closed from Tuesday, 24 November 2020 to Friday, 27 November 2020, both days inclusive. In order to ascertain shareholders’ eligibility to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 23 November 2020.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the websites of the Company (www.transmit-ent.com) and the Stock Exchange (www.hkexnews.hk). The Annual Report 2019/20 will be dispatched to the shareholders of the Company in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the Year. I would also like to express heartfelt gratitude to all of our customers and suppliers on behalf of the Group, and wish for their continuous supports in the future. We will keep working closely with our shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group's development.

By order of the Board
Transmit Entertainment Limited
Zhang Liang, Johnson
Chairman

Hong Kong, 25 September 2020

As at the date of this announcement, the Board comprises (i) three executive Directors, namely Mr. ZHANG Liang, Johnson (Chairman), Ms. ZHAO Wenzhu and Mr. LEE Hin Kwong, Patrick; and (ii) three independent non-executive Directors, namely Mr. WANG Bo, Mr. XIANG Feng and Mr. CHANG Eric Jackson.