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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$160.8 million for the six months ended 31 December 2020, representing a decrease of approximately HK\$145.9 million or approximately 47.6% as compared to the corresponding period of 2019.
- The pan-entertainment and other businesses recorded a total revenue of approximately HK\$98.2 million for the Period under Review, representing a significant increase of approximately 551.7% as compared to the corresponding period in 2019. The Group's proportion of revenue from Mainland China increased by 16.5 percentage points year-on-year to approximately 79.1%, with Mainland China continuing to be a major source of revenue and business growth for the Group.
- The Group reported a loss attributable to owners of the Company of approximately HK\$79.7 million for the six months ended 31 December 2020, as compared to a loss of approximately HK\$19.6 million in the corresponding period of 2019. Market sentiment continued to be weak in the second half of 2020, mainly due to the impact of COVID-19, resulting in a significant decline in revenue from the film exhibition business.
- The Group continued to improve its industrial chain and launched its own beauty retail brands for young female consumers during the Period under Review to further broaden its revenue base and capture the "Stay-at-Home Economy" business opportunities.
- The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2020.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

The board of directors (the “Board”) of Transmit Entertainment Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 December 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2020

		Six months ended	
		31 December	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	3	160,779	306,633
Cost of sales		<u>(67,630)</u>	<u>(146,065)</u>
Gross profit		93,149	160,568
Other gains and losses	4	–	(580)
Other income	4	25,684	7,473
Selling and distribution expenses		(92,924)	(91,637)
Impairment losses on trade receivables under expected credit loss model		–	(1,998)
Impairment loss on property, plant and equipment	10	(293)	(2,507)
Impairment loss on right-of-use assets	10	(11,075)	(18,371)
Fair value change on contingent consideration payable		(2,702)	(7,628)
Administrative expenses		(48,688)	(30,472)
Net foreign exchange gains (losses)		2,520	(2,732)
Finance costs	5	(32,954)	(34,366)
Share of results of associates		<u>–</u>	<u>(855)</u>
Loss before tax		(67,283)	(23,105)
Income tax (expense) credit	6	<u>(47)</u>	<u>3,519</u>
Loss for the period	7	<u>(67,330)</u>	<u>(19,586)</u>

	Six months ended	
	31 December	
	2020	2019
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Other comprehensive income (expense)		
for the period		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Reclassification adjustments upon disposal of associates included in profit or loss	–	(321)
Share of exchange difference of a joint venture arising on translating foreign operation	–	(8)
Exchange difference arising on translating foreign operation	<u>19,021</u>	<u>(2,593)</u>
	<u>19,021</u>	<u>(2,922)</u>
Total comprehensive expense for the period	<u>(48,309)</u>	<u>(22,508)</u>
(Loss) profit for the period attributable to:		
– Owners of the Company	(79,715)	(19,586)
– Non-controlling interests	<u>12,385</u>	<u>–</u>
	<u>(67,330)</u>	<u>(19,586)</u>
Total comprehensive (expense) income for the period attributable to:		
– Owners of the Company	(61,052)	(22,508)
– Non-controlling interests	<u>12,743</u>	<u>–</u>
	<u>(48,309)</u>	<u>(22,508)</u>
Loss per share	9	
Basic (HK cents)	<u>(3.07)</u>	<u>(0.75)</u>
Diluted (HK cents)	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		31 December 2020	30 June 2020
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	69,886	74,689
Right-of-use assets	<i>10</i>	601,917	668,311
Goodwill	<i>11</i>	480,743	448,173
Intangible assets		95,738	102,416
Interest in a joint venture		163	163
Rental deposits		14,077	14,878
Deferred tax assets		289	297
		1,262,813	1,308,927
Current assets			
Film and television series production in progress	<i>12</i>	429,861	163,736
Inventories		4,423	1,249
Trade and other receivables	<i>13</i>	192,485	126,281
Contract assets		–	16,599
Rental deposits		13,123	13,389
Financial assets at fair value through profit or loss		37,656	7,040
Restricted bank balances		1,187	13,098
Pledged bank deposits	<i>14</i>	21,667	21,667
Bank balances and cash	<i>14</i>	137,519	112,263
		837,921	475,322

		31 December	30 June
		2020	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current liabilities			
Trade and other payables	<i>15</i>	254,856	215,806
Contract liabilities	<i>15</i>	393,026	60,695
Tax payable		6,006	5,713
Bank and other borrowings	<i>16</i>	40,238	22,000
Loans from related companies	<i>17</i>	–	30,303
Amount due to a controlling shareholder		–	27,500
Bonds payable		33,500	22,000
Amount due to a joint venture		385	385
Contingent consideration payable		220,424	145,262
Lease liabilities		92,105	71,962
		1,040,540	601,626
Net current liabilities		(202,619)	(126,304)
Total assets less current liabilities		1,060,194	1,182,623
Non-current liabilities			
Deposits received	<i>15</i>	383	383
Bonds payable		18,000	29,500
Loans from related companies	<i>17</i>	150,039	89,721
Amount due to a controlling shareholder		29,500	–
Bank and other borrowings	<i>16</i>	45,000	45,000
Contingent consideration payable		–	103,693
Deferred tax liabilities		21,036	23,231
Lease liabilities		638,940	685,490
		902,898	977,018
Net assets		157,296	205,605
Capital and reserves			
Share capital	<i>18</i>	6,489	6,489
Reserves		(105,425)	(44,373)
Deficit in shareholder's equity attributable to owners of the Company		(98,936)	(37,884)
Perpetual bonds		204,600	204,600
Non-controlling interests		51,632	38,889
Total equity		157,296	205,605

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2020

	Attributable to owners of the Company					Sub-total HK\$'000	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				
At 1 July 2019 (audited)	6,489	521,046	10	1,996	(439,362)	90,179	–	(3,963)	86,216
Loss for the period	–	–	–	–	(19,586)	(19,586)	–	–	(19,586)
Reclassification adjustments upon disposal of associates included in profit or loss	–	–	–	(321)	–	(321)	–	–	(321)
Share of exchange difference of a joint venture arising on translating foreign operation	–	–	–	(8)	–	(8)	–	–	(8)
Exchange difference arising on translating foreign operation	–	–	–	(2,593)	–	(2,593)	–	–	(2,593)
Total comprehensive expense for the period	–	–	–	(2,922)	(19,586)	(22,508)	–	–	(22,508)
Disposal of subsidiaries	–	–	–	–	–	–	–	3,963	3,963
At 31 December 2019 (unaudited)	<u>6,489</u>	<u>521,046</u>	<u>10</u>	<u>(926)</u>	<u>(458,948)</u>	<u>67,671</u>	<u>–</u>	<u>–</u>	<u>67,671</u>
At 1 July 2020 (audited)	<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>
(Loss) profit for the period	–	–	–	–	(79,715)	(79,715)	–	12,385	(67,330)
Exchange difference arising on translating foreign operation	–	–	–	18,663	–	18,663	–	358	19,021
Total comprehensive income (expense) for the period	–	–	–	18,663	(79,715)	(61,052)	–	12,743	(48,309)
At 31 December 2020 (unaudited)	<u>6,489</u>	<u>521,046</u>	<u>10</u>	<u>19,194</u>	<u>(645,675)</u>	<u>(98,936)</u>	<u>204,600</u>	<u>51,632</u>	<u>157,296</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 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 (the "issuers") issued perpetual bonds amounting 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 ("Guangzhou Puji"), 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 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 issuers' 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 distribution of dividends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 31 December 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

As at 31 December 2020, the Group had net current liabilities of approximately HK\$202,619,000 (30 June 2020: HK\$126,304,000). The net current liabilities included contract liabilities of approximately HK\$393,026,000 (30 June 2020: HK\$60,695,000) which will be recognised as revenue upon the delivery of the film negatives and television (“TV”) series program to the customers and TV broadcast networks and shall not have any cash outflow from the Group, bank and other borrowings of HK\$40,238,000 (30 June 2020: HK\$22,000,000) which was repayable within one year and bonds payable of HK\$33,500,000 (30 June 2020: HK\$22,000,000) which was repayable within one year with interest-bearing at a range of 6.5% to 9%.

In the opinion of 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, a new loan advance granted by a related company of RMB38,000,000 (equivalent to HK\$44,840,000) subsequent to the reporting date, a new loan advance granted by a controlling shareholder of RMB10,000,000 (equivalent to HK\$11,800,000) subsequent to the reporting date and the unutilised banking facilities amounting to RMB33,000,000 (equivalent to HK\$38,940,000), 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 condensed 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. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2020 are the same as those presented in Group’s annual financial statements for the year ended 30 June 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 July 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on these condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 30 June 2021.

3A. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue from contracts with customers

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Film and TV series production, distribution and licensing income	35,968	191,565
Film exhibition income	26,585	99,995
Pan entertainment income	98,226	11,629
Others	–	3,444
Total	<u>160,779</u>	<u>306,633</u>
Timing of revenue recognition		
At a point in time	154,786	283,991
Over time	5,993	22,642
Total	<u>160,779</u>	<u>306,633</u>

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.

3B. 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 condensed consolidated financial statements for the period ended 31 December 2020.

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

Since 1 July 2019, the Group commenced the business in pan entertainment through the Group’s PRC subsidiaries and its segment revenue and segment results were included in “others” segment for the six months ended 31 December 2019.

The accounting policies of the operating and reportable segments are the same as the Group’s accounting policies used in the preparation of the Group’s annual financial statements for the year ended 30 June 2020 except for the changes in accounting policy as disclosed in note 2. Segment (loss) profit represent the profit earned or loss incurred by each segment without allocation of certain other income, certain selling and distribution expenses, certain administrative expenses, certain finance costs, fair value change on contingent consideration payable, share of results of a joint venture, loss on disposal of subsidiaries, gain on disposal of associates and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

For the six months ended 31 December 2020 (unaudited)

	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>35,968</u>	<u>26,585</u>	<u>98,226</u>	<u>–</u>	<u>160,779</u>
Segment (loss) profit	<u>(6,529)</u>	<u>(77,642)</u>	<u>30,182</u>	<u>–</u>	<u>(53,989)</u>
Unallocated other income					315
Unallocated head office and corporate expenses					(8,772)
Fair value change on contingent consideration payable					(2,702)
Finance costs					<u>(2,135)</u>
Loss before tax					<u>(67,283)</u>

For the six months ended 31 December 2019 (unaudited)

	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>191,565</u>	<u>99,995</u>	<u>15,073</u>	<u>306,633</u>
Segment profit (loss)	<u>77,165</u>	<u>(59,310)</u>	<u>(13,648)</u>	4,207
Unallocated head office and corporate expenses				(16,641)
Fair value change on contingent consideration payable				(7,628)
Loss on disposal of subsidiaries				(4,838)
Gain on disposal of associates				4,258
Finance costs				(1,608)
Share of results of associates				<u>(855)</u>
Loss before tax				<u>(23,105)</u>

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

Geographical information

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

	Six months ended	
	31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Hong Kong and Macau	28,317	110,085
The People's Republic of China (the "PRC")	127,238	191,965
Others	5,224	4,583
	<u>160,779</u>	<u>306,633</u>

The information about its non-current assets (excluded goodwill, intangible assets, rental deposits and deferred tax assets) by geographical locations of the assets are as below:

	31 December	30 June
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
The PRC	4,838	6,583
Hong Kong	667,128	736,580
	<u>671,966</u>	<u>743,163</u>

4. OTHER GAINS AND LOSSES AND OTHER INCOME

	Six months ended	
	31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Other gains and losses		
Loss on disposal of subsidiaries	–	(4,838)
Gain on disposal of associates	–	4,258
	<u>–</u>	<u>–</u>
	–	(580)
	<u>–</u>	<u>–</u>
Other income		
Handling service income	561	1,532
Membership income	242	476
Interest income	311	334
Rent concessions (<i>note 10</i>)	8,966	–
Government subsidy received (<i>note</i>)	4,971	–
Coupon sales income from film producer	1,086	2,141
Commission income from artiste management	2,216	–
Others	7,331	2,990
	<u>25,684</u>	<u>7,473</u>

Note: The amount represents the government subsidy for the Employment Support Scheme under the Anti-epidemic Fund received from the Hong Kong Special Administrative Region Government during the current interim period ended 31 December 2020.

5. FINANCE COSTS

	Six months ended	
	31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest expenses on:		
Loans from related companies (<i>note 17</i>)	3,980	8,096
Lease liabilities	25,234	23,131
Bank and other borrowings	1,630	1,571
Bonds payable	2,110	1,568
	<u>32,954</u>	<u>34,366</u>

6. INCOME TAX EXPENSE (CREDIT)

	Six months ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current period	2,242	481
Deferred tax	<u>(2,195)</u>	<u>(4,000)</u>
Income tax expense (credit)	<u>47</u>	<u>(3,519)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

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 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 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 Xin Jiang*). According to 《企業所得稅優惠事項備案表》, one of the Group’s subsidiaries obtained the approval from the PRC tax bureau on 23 June 2018 for entitlement of EIT exemption from 1 January 2018 to 31 December 2020. One more subsidiary of the Group obtained the approval from the PRC tax bureau on 5 January 2021 for entitlement of EIT exemption from 1 January 2020 to 31 December 2024.

* For identification only

7. LOSS FOR THE PERIOD

	Six months ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging:		
Directors' emoluments	2,046	2,029
Other staff costs	28,152	21,781
Retirement benefit scheme contributions, excluding those of the Directors	2,214	1,207
	<hr/>	<hr/>
Total staff costs	32,412	25,017
	<hr/>	<hr/>
Auditors' remuneration	1,385	1,385
Depreciation of property, plant and equipment	4,701	6,340
Depreciation of right-of-use assets	55,592	54,342
Cost of film and television rights recognised as an expense	3,914	68,210
Short-term lessees rental expenses for premises	295	–
Contingent rents incurred for cinemas	41	529
Cost of scriptwriters for film and TV services production	24,377	20,806
Cost of services provided	9,797	36,437
Cost of artiste and internet celebrity	28,117	7,145
Cost of inventories sold	1,425	1,996
	<hr/>	<hr/>

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired property, plant and equipment amounting to HK\$104,000 (six months ended 31 December 2019: HK\$341,000) for the purpose of the Group's operation.

During the current interim period, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK\$8,966,000 were credited to profit or loss recognised as other income as disclosed in Note 4. These rent concessions occurred as a direct consequence of COVID-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications.

Impairment assessments

As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Group is experiencing significant decrease in the film exhibition revenue due to temporary closure of the cinemas, which represented cinema's right-of-use assets and property, plant and equipment, may be impaired. During the current interim period, the Group performed impairment testing and recognised impairment loss in profit or loss of approximately HK\$11,075,000 and HK\$293,000 (year ended 30 June 2020: HK\$28,895,000 and HK\$2,189,000) for right-of-use assets and property, plant and equipment, respectively.

11. GOODWILL

For the purpose of impairment assessment, goodwill is allocated to two individual cash generating units ("CGUs"), each comprising a subsidiary, namely Khorgas Houhai Culture Media Company Limited and its subsidiary, Beijing Juhai Culture Media Company Limited (collectively known as the "Khorgas Group") and 聞瀾(上海)文化傳媒有限公司 (Wenlan (Shanghai) Culture Communication Co., Ltd.*) ("Wenlan"). An individual cash generating unit ("CGU") is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs of disposal. During the six months ended 31 December 2020, no impairment loss has been recognised in profit or loss.

Khorgas Group

The calculation of the recoverable amount of Khorgas Group uses cash flow projections based on financial budgets approved by management covering a 5-year period with an average annual revenue growth rate of 2% to 8% (year ended 30 June 2020: 3% to 38%) and a pre-tax discount rate of 21% (year ended 30 June 2020: 20%) per annum as at 31 December 2020. Cash flows beyond the 5-year ended are extrapolated using a steady expected inflation rate of 3% (year ended 30 June 2020: 3%) per annum. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and budgeted costs. Such estimation is based on Khorgas Group'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 cash generating unit ("CGU") to exceed its recoverable amount.

Wenlan

The calculation of the recoverable amount of Wenlan uses cash flow projections based on financial budgets approved by management covering a 5-year period with an average (negative growth rate) growth rate for revenue of (12%) to 10% (year ended 30 June 2020: 3% to 62%) and pre-tax discount rate of 27.9% (year ended 30 June 2020: 27.6%) per annum as at 31 December 2020. Cash flows beyond the 5-year ended are extrapolated using a steady expected inflation rate of 3% (year ended 30 June 2020: 3%) per annum. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and budgeted costs. Such estimation is based on Wenlan'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 CGU's to exceed its recoverable amount.

The carrying amount of goodwill as at 31 December 2020 allocated to Khorgas Group and Wenlan are HK\$422,621,000 and HK\$58,122,000 (year ended 30 June 2020: HK\$393,989,000 and HK\$54,184,000), respectively.

* *For identification only*

12. 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 2019	913,930	174,078
Additions	–	190,791
Disposal of subsidiaries	(8,142)	–
Transfer	156,237	(156,237)
Exchange adjustments	–	(5,021)
	<u>1,062,025</u>	<u>203,611</u>
At 30 June 2020	1,062,025	203,611
Additions	–	250,562
Transfer	3,914	(3,914)
Exchange adjustments	–	19,477
	<u>1,065,939</u>	<u>469,736</u>
At 31 December 2020	1,065,939	469,736
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2019	909,143	39,875
Charged for the period	161,024	–
Disposal of subsidiaries	(8,142)	–
	<u>1,062,025</u>	<u>39,875</u>
At 30 June 2020	1,062,025	39,875
Charged for the period	3,914	–
	<u>1,065,939</u>	<u>39,875</u>
At 31 December 2020	1,065,939	39,875
CARRYING AMOUNTS		
At 31 December 2020 (unaudited)	–	<u>429,861</u>
At 30 June 2020 (audited)	–	<u>163,736</u>

13. TRADE AND OTHER RECEIVABLES

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:

	31 December	30 June
	2020	2020
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables:		
0 - 30 days	17,250	6,121
31 - 60 days	5,232	5,218
61 - 90 days	715	70
91 - 180 days	–	1,093
181 - 365 days	28,852	66,468
	52,049	78,970
Other receivables, deposits and prepayments	20,120	10,038
Prepayment to suppliers	30,887	16,629
Prepayment of interest to bondholders	1,119	1,128
Prepayment for artiste management agency and scriptwriters	30,533	4,160
Other deposits and prepayments for cinema operation	2,771	2,213
Other receivables TV series producers	31,529	8,637
Other tax recoverable	23,477	4,506
	192,485	126,281

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.

These trade receivables relate to a number of independent customers that have a good repayment history. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$29,442,000 (year ended 30 June 2020: HK\$15,173,000) as at 31 December 2020 which are past due as at the reporting date. Included in the past due balances, allowance of credit losses of HK\$2,998,000 (year ended 30 June 2020: HK\$2,998,000) has been provided as of 31 December 2020. The Group does not hold any collateral or credit enhancements over these balances.

14. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

At 31 December 2020, amount of HK\$667,000 (year ended 30 June 2020: HK\$667,000) has been pledged to a bank to secure the 4Dx's equipment rental fees payable to a supplier of 4Dx equipment for the Group's operation in the lease premises in accordance with the 4Dx equipment rental agreement dated 20 August 2015. The pledged bank deposit carries interest at a fixed rate of 0.2% (year ended 30 June 2020: 0.2%) per annum and it will be mature on 23 February 2021 (year ended 30 June 2020: 20 August 2020).

In addition, at 31 December 2020, the Group has a pledged bank deposit of HK\$21,000,000 (year ended 30 June 2020: HK\$21,000,000) which carries interest at a fixed rate of 2.3% per annum (year ended 30 June 2020: 0.3%) and is pledged to a bank to secure the bank borrowings granted to the Group. The pledged bank deposits will be released upon the repayment of the relevant borrowings.

Bank balances of the Group carry interest at market rates ranging from 0.01% to 0.35% (year ended 30 June 2020: 0.01% to 0.29%) per annum as at 31 December 2020.

15. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	31 December 2020 HK\$'000 (unaudited)	30 June 2020 HK\$'000 (audited)
Trade payables	43,045	29,846
Other payables and accruals	34,172	40,008
Investment funds from investors (<i>note i</i>)	28,637	22,481
Advances from former shareholders of subsidiaries acquired (<i>note iii</i>)	37,618	35,068
Consideration payable in respect of acquisition of a subsidiary	56,965	52,800
Deposits received (<i>note ii</i>)	1,298	929
Payable to film producers (<i>note v</i>)	27,606	22,729
Accrued service fee for artiste management and TV series production (<i>note vi</i>)	25,898	12,328
	255,239	216,189
Less: amount shown under non-current liabilities (<i>note ii</i>)	(383)	(383)
Amount shown under current liabilities	254,856	215,806
Contract liabilities (<i>note iv</i>)	393,026	60,695

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:

	31 December	30 June
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Within 60 days	13,708	13,353
Within 61 to 90 days	2,409	–
Within 91 to 365 days	21,890	16,493
Over 365 days	5,038	–
	43,045	29,846

Notes:

- (i) The investment funds from investors represent the share of return on investments 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 31 December 2020, deposits received of HK\$915,000 (year ended 30 June 2020: HK\$546,000) will expire within 1 year and therefore the amount was classified as current liabilities. The remaining amount of HK\$383,000 (year ended 30 June 2020: HK\$383,000) will expire in February 2022 (year ended 30 June 2020: February 2022) and therefore, the amount 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) Deposits are received by the Group as the instalments of contribution from the PRC co-producers for film and TV series production in progress and advances of distribution and licensing income received from distributors prior to release and delivery of film negatives and TV series program. Payment terms are negotiated in contract by contract basis. When the Group receives certain percentage of deposits as an advance payment upon signing the contract, this will give rise to contract liabilities at the start of a contract, until the revenue is recognised upon the relevant performance obligation is fulfilled.
- (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 as at 31 December 2020.
- (vi) The amounts represented the accrued services fee payable to the artiste management agency, film director and scriptwriters of TV series production.

16. BANK AND OTHER BORROWINGS

	31 December 2020 HK\$'000 (unaudited)	30 June 2020 HK\$'000 (audited)
Fixed-rate bank borrowings		
– Secured and unguaranteed (<i>note i</i>)	18,998	18,700
– Unsecured and guaranteed (<i>note ii</i>)	21,240	3,300
	40,238	22,000
Unsecured other borrowing (<i>note iii</i>)	45,000	45,000
	85,238	67,000
Analysis as:		
– Current liabilities	40,238	22,000
– Non-current liabilities	45,000	45,000
	85,238	67,000

The Group's bank borrowings are repayable within one year and denominated in RMB.

Notes:

- (i) The amount represents a bank borrowing of RMB16,100,000 (equivalent to HK\$18,998,000) (year ended 30 June 2020: RMB17,000,000 (equivalent to HK\$18,700,000)) as at 31 December 2020. The bank borrowing was repayable on demand and secured by a bank deposit of HK\$21,000,000. The effective interest rate of the bank borrowing is fixed at 4.8% per annum. The Group was partially settled this bank borrowing of RMB900,000 (equivalent to HK\$1,008,000) during the current interim period.
- (ii) The Group obtained new bank borrowings of RMB15,000,000 (equivalent to HK\$17,700,000) during the current interim period. The bank borrowings were unsecured, repayable within one year and guaranteed by a controlling shareholder, subsidiaries of the Group and an insurance company. The effective interest rate of the bank borrowings are fixed at 4.9% per annum.

The remaining amount represents a bank borrowing of RMB3,000,000 (equivalent to HK\$3,540,000) (year ended 30 June 2020: RMB3,000,000 (equivalent to HK\$3,300,000)) as at 31 December 2020. The bank borrowing was unsecured, repayable on demand and guaranteed by an insurance company. The effective interest rate of the bank borrowing is fixed at 4.5% per annum.

- (iii) The other borrowing is due to Pure Project Limited in which Mr. Wong Pak Ming (“Mr. Wong”) (who resigned as executive director of the Company on 1 April 2019) has controlling interests during the period ended 31 December 2020 and 30 June 2020. The other borrowing of HK\$45,000,000 as at 30 June 2020 is unsecured, interest-free and repayable on demand. During the current interim period, 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 classified as non-current liabilities.

17. LOANS FROM RELATED COMPANIES

Members of the key management of the Group have controlling interests over the related companies.

	31 December 2020 HK\$'000 (unaudited)	30 June 2020 HK\$'000 (audited)
Loans from related companies		
– Loan 1 (<i>note i</i>)	28,090	25,303
– Loan 2 (<i>note ii</i>)	99,489	89,721
– Loan 3 (<i>note iii</i>)	8,300	5,000
– Loan 4 (<i>note iv</i>)	14,160	–
	150,039	120,024
Analysis as:		
– Current liabilities	–	30,303
– Non-current liabilities	150,039	89,721
	150,039	120,024

Notes:

- (i) The amount represents a loan advance from Guangzhou Puji, a related company in which Mr. Zhang has controlling interests. The amount of loan advance plus the accrued loan interest as at 31 December 2020 amounted to RMB23,805,000 (equivalent to HK\$28,090,000) (30 June 2020: RMB23,000,000 (equivalent to HK\$25,303,000)). The loan advance was unsecured, interest bearing at 7% per annum and repayable on 18 June 2021. During the current interim period, the Group signed an extension agreement with Guangzhou Puji to extend the repayment date from 18 June 2021 to 30 July 2022 and therefore the amount was classified as non-current liabilities as at 31 December 2020.
- (ii) The amount represents loan advances from Guangzhou Black Hole Investment Limited (“Black Hole”), a company in which Mr. Zhang has controlling interests. The amount of loan advances plus the accrued loan interest as at 31 December 2020 amounted to RMB84,313,000 (equivalent to HK\$99,489,000) (30 June 2020: RMB81,564,000 (equivalent to HK\$89,721,000)). The loan advances were unsecured and interest bearing at 7% per annum and repayable in July 2021 and August 2021, respectively and was subsequently agreed to revise the repayment date to 30 July 2022 and therefore the amounts were classified as non-current liabilities as at 31 December 2020.
- (iii) During the current interim period, the Group obtained a new loan advance of HK\$3,300,000 from Skynova International Limited (“Skynova”), a company in which Mr. Zhang has controlling interests. The loan advance was unsecured, non-interest bearing and repayable on 30 July 2022.

At 30 June 2020, the Group borrowed the loan advance from Skynova of HK\$5,000,000 in which the loan advance was unsecured, non-interest bearing and repayable on 31 December 2020. On 1 May 2020, the Group signed an extension agreement with Skynova to extend the repayment date of the loan advance of HK\$5,000,000 from 31 December 2020 to 30 July 2022 and therefore the aggregate loan advances of HK\$8,300,000 were classified as non-current liabilities as at 31 December 2020.

- (iv) The Group obtained a new loan advance of RMB15,000,000 from Guangzhou Puji in July 2020 and settled RMB3,000,000 during the current interim period. The loan advance was unsecured and non-interest bearing. On 31 December 2020, the Group signed an extension agreement with Guangzhou Puji to extend the repayment date from June 2021 to July 2022 and therefore the loan advance was classified as non-current liabilities as at 31 December 2020.

18. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2019, 30 June 2020 (audited) and 31 December 2020 (unaudited)	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2019, 30 June 2020 (audited) and 31 December 2020 (unaudited)	<u>2,595,613,733</u>	<u>6,489</u>

19. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme") was approved and adopted by the sole shareholder on 5 October 2012 for the primary purpose to grant options to eligible persons as incentives or rewards for their contribution to the Group.

Under the Scheme, the Directors may, at its discretion, grant options pursuant to the Scheme to the Directors (including executive directors, non-executive directors and independent non-executive directors), employees, advisors and consultants of the Company and its subsidiaries who the Directors consider, in its absolute discretion, have contributed or will contribute to the Group (the "Participants").

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The Scheme shall be valid and effective for a period of 10 years commencing on 5 October 2012. Options granted during the life of the Scheme shall continue to be exercisable in accordance with their terms of grant. The exercise price is determined by the Directors and will not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. Upon acceptance of the option, the Participants shall pay HK\$1.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 28 days from the date of grant.

For the six months ended 31 December 2020 and 2019, there was no share option granted under the Scheme by the Company. There was no share option outstanding as at 31 December 2020 and 30 June 2020.

20. RELATED PARTY DISCLOSURES

Apart from the balances with related parties as disclosed in Note 17, during the current interim period, the Group also entered into the following significant transactions with related parties:

Name of related party	Notes	Nature of transaction	Six months ended	
			2020	2019
			HK\$'000	HK\$'000
			(unaudited)	(unaudited)
Mandarin Motion Pictures Production Limited (“Mandarin Motion”)	(a)	Production service and film processing fees	–	1,894
Guangzhou Seedland Real Estate Development Limited (“Guangzhou Seedland”)	(b)	Interest expenses	–	8,096
Black Hole	(b)	Interest expenses	3,078	–
Guangzhou Puji	(b)	Interest expenses	902	–

Notes:

- (a) 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, has controlling interests.
- (b) The interest expenses were incurred to Guangzhou Seedland, Black Hole and Guangzhou Puji for the loan advances made to the Group in which Guangzhou Seedland, Black Hole and Guangzhou Puji are beneficially owned by Mr. Zhang, the controlling shareholder and the executive director of the Company.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The level in the fair value hierarchy within which the financial asset and financial liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December	30 June				
	2020	2020				
	HK\$'000	HK\$'000				
Financial assets at FVTPL	37,656	7,040	Level 2	Discounted cash flow method was used and future cash flows are estimated based on the contractual terms of wealth management products and discounted at a rate that reflects the credit risk of the counterparties.	Nil	The higher the estimated discount rate, the lower the fair value.
Contingent consideration payable	220,424	248,955	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate.	Discount rate of 7% per annum	The higher the estimated discount rate, the lower the fair value.

Note: A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the contingent consideration payable, and vice versa. A 5% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the contingent consideration payable by HK\$451,000 (year ended 30 June 2020: HK\$538,000).

The following table represents the reconciliation of level 3 fair value measurements:

	Contingent consideration payable <i>HK\$'000</i>	
At 1 July 2019 (audited)		317,390
Fair value change in the profit or loss		7,628
Settlements		(64,047)
Exchange adjustments		<u>(2,735)</u>
At 31 December 2019 (unaudited)		<u>258,236</u>
At 1 July 2020 (audited)		248,955
Fair value change in the profit or loss		2,702
Settlements		(46,967)
Exchange adjustments		<u>15,734</u>
At 31 December 2020 (unaudited)		<u>220,424</u>
	31 December 2020 <i>HK\$'000</i> (unaudited)	30 June 2020 <i>HK\$'000</i> (audited)
Analysis as:		
Current liabilities	220,424	145,262
Non-current liabilities	<u>–</u>	<u>103,693</u>
	<u>220,424</u>	<u>248,955</u>

The financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration payable relating to the acquisition of Khorgas Group. Fair value losses on contingent consideration payable is charged to profit or loss.

22. EVENTS AFTER THE REPORTING PERIOD

- (a) As set out in the Company's announcement dated 18 January 2021, Cinema City Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("Agreement") with Mandarin Film and Culture Development Limited (the "Purchaser"), a company beneficially owned by Mr. Wong who is a director of certain subsidiaries of the Company and he is considered as a connected person of the Company, for the sale of the entire equity interest in Cinema City (WL) Limited holding Cinema City (Hong Kong) Limited, Cinema City (Chai Wan) Limited, Cinema City (TW) Limited and Screen Media & Promotion Limited, to the Purchaser at a consideration of HK\$108.2 million ("Disposal Transaction").

Upon the completion of the Disposal Transaction, Cinema City (WL) Limited will enter into the management agreement with the Company in relation to the provision of management services by Cinema City (WL) Limited to the Company in respect of the management of the cinema located at Langham Place operated by a subsidiary of the Company for the period of 1 February 2021 to 31 January 2024, at a monthly service fee of HK\$50,000. The management agreement will constitute an exempt continuing connected transaction for the Company.

As at the date of this announcement, the Disposal Transaction has not been completed. Further details of the Disposal Transaction are set out in the circular of the Company dated 25 February 2021.

- (b) Subsequent to the end of the reporting period, the Group obtained new loan facility agreements with a related company and the controlling shareholder amounting to RMB38 million and RMB10 million, respectively and the full amounts were withdrawn by the Group in February 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) film, TV series and variety show production, distribution and licensing of film rights; (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. During the six months ended 31 December 2020 (the “Period under Review”), the Group further advanced the “Stay-at-Home Economy” and its brand diversification strategy. The Group’s proportion of revenue from Mainland China increased by 16.5 percentage points year-on-year to approximately 79.1% from approximately 62.6% in the same period in 2019, as Mainland China continued to be a major source of revenue and business growth for the Group.

Film, TV series and variety show production and distribution

Following the development of the industry and the entertainment tastes of young viewers, the Group has continued to focus on the development and production of outstanding variety contents, while actively exploring innovative business models such as web series, online movies and short videos. During the Period under Review, film, TV series and variety show production and distribution business remained as the core business of the Group with reported revenue of approximately HK\$36.0 million, representing a decrease of approximately 81.2% as compared to the corresponding period in 2019, mainly due to the fact that no new movie was released during the Period under Review, and certain TV series and variety shows were still in production, the revenue of which was not yet recognized in the interim period.

The 24-episode new urban idol drama “The Trick of Life and Love”, directed by Li Yanqian, is expected to be broadcast on the video site Mango TV in the coming year and will generate corresponding revenue. In addition, the urban romantic drama “Miss Crow and Mr. Lizard”, directed by Wu Qiang, was successfully completed in July 2020 and is expected to be aired exclusively on Tencent Video in the coming year and will generate corresponding revenue; the urban romantic drama “程序員那麼可愛”, adapted from a popular comic strip, has been completed in November 2020 and will be broadcast on Tencent Video; the costume sweet-pet web drama “許純純的茶花運” has been launched in December 2020 and will be broadcast exclusively on iQIYI.

Film exhibition

During the Period under Review, market sentiment continued to be weak in the second half of 2020 due to the impact of the novel coronavirus pandemic, and the Hong Kong government's control and social distancing measures for public entertainment venues such as cinemas also had a significant negative impact on our operations, resulting in a significant decline in revenue from the film exhibition business. The Group's film exhibition segment experienced unprecedented challenges as its cinemas were intermittently closed during the Period under Review, resulting in a significant decrease in attendance compared to the corresponding period in 2019. The Group's film exhibition revenue decreased by approximately 73.4% to approximately HK\$26.6 million for the Period under Review as compared to the corresponding period in 2019, accounting for approximately 16.5% of the Group's total revenue.

Pan-entertainment and other businesses

During the Period under Review, the Group continued to improve its industry chain and broaden its revenue base to capture the "Stay-at-Home Economy" business opportunities. With booming fan base across all platforms, the Group's influence and live commerce ability in vertical market segments continued to grow. Combined with the resources advantage of celebrity marketing, the Group launched two light luxury beauty brands, LION BEAUTY and FADESOU, during the Period under Review, focusing on creating beauty boutiques for young female consumers through precise marketing.

For artiste and internet celebrity agency business, a number of TV series that Yang Chaoyue, our artiste, starred in, including "The Promise of Chang'an", "Midsummer is Full of Love" and "Dance of the Phoenix", were officially released, and the heavyweight TV series "The Ideal City" in which she played a role will be broadcast soon. Meanwhile, Li Yitong, our artiste, has been on the top search list for the hit TV series "Dear Missy", and "Dt. Appledog's Time" and "Court Lady", in which she played a role, are expected to be broadcast in 2021.

Benefiting from the continued growth in business scale, the Group's pan-entertainment and other businesses recorded a total revenue of approximately HK\$98.2 million for the Period under Review, representing a significant increase of approximately 551.7% as compared to approximately HK\$15.1 million in the corresponding period in 2019. This business segment recorded a profit of approximately HK\$30.2 million for the Period under Review (six months ended 31 December 2019: loss of approximately HK\$13.6 million).

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.

A number of projects of the Group are currently in production, including “The Ideal City” (理想之城), an inspiring urban workplace TV series, “The Trick of Life and Love” (機智的戀愛生活), a new urban idol drama, “The Adventures of Detective” (萌賊探案), a detective reality show and “I Love You, Me too” Season 3. Among which, the inspiring urban workplace TV series “The Ideal City”, in which Sun Li (孫儷) and Zhao You Ting (趙又廷) starred as protagonists, has completed the shooting in December 2020, and is expected to be exclusively broadcast on the video site iQIYI in the coming year and to generate corresponding revenue. 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) and “Locard’s theory” (洛卡爾定律).

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.

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group for the Period under Review amounted to approximately HK\$160.8 million, representing a decrease of approximately HK\$145.9 million or 47.6% as compared to the corresponding period of 2019, mainly contributed by revenue from the business segments of pan-entertainment and film and TV series production and distribution of approximately HK\$98.2 million and HK\$36.0 million, respectively.

For the film and TV series production and distribution segment, the Group recorded revenue mainly from script writing and directing during the Period under Review. The Group recorded revenue from sales of certain movie and television copyrights during the corresponding period in 2019, while there was no such revenue recorded during the Period under Review. For the film exhibition segment, due to the impact of the novel coronavirus pandemic, market sentiment is still weak in the second half of 2020, resulting in a significant decrease in the revenue from film exhibition business. For the pan-entertainment and the other segments, the Group recorded a total revenue of approximately HK\$98.2 million from artiste management services and sale of merchandise under self-owned retail brands during the Period under Review, representing a significant increase of approximately 551.7% as compared to the corresponding period in 2019.

Gross profit of the Group was approximately HK\$93.1 million, representing a decrease of approximately HK\$67.4 million or approximately 42.0% as compared to the corresponding period of 2019. Gross profit margin for the Period under Review was approximately 57.9%, representing an increase of 5.5 percentage points as compared to approximately 52.4% for the corresponding period in 2019.

Other gains and losses and other income

During the Period under Review, other gains and losses and other income was approximately HK\$25.7 million, representing an increase of HK\$18.8 million or approximately 272.6% as compared to the corresponding period in 2019, which was mainly due to the rent concessions from landlords and government subsidies from the Hong Kong Government received by theaters.

Selling and distribution expenses

Selling and distribution expenses increased slightly by approximately HK\$1.3 million or 1.4% from approximately HK\$91.6 million for the corresponding period in 2019 to approximately HK\$92.9 million for the Period under Review.

Administrative expenses

Administrative expenses increased by approximately HK\$18.2 million or approximately 59.8% from approximately HK\$30.5 million for the corresponding period in 2019 to approximately HK\$48.7 million for the Period under Review, which was attributable to the ordinary administrative expenses incurred by the expanding pan-entertainment business, in particular, Wenlan, a non wholly-owned subsidiary acquired in March 2020.

Loss for the period under review

The Group's loss and total comprehensive expense attributable to owners of the Company for the Period under Review amounted to approximately HK\$79.7 million (six months ended 31 December 2019: loss of approximately HK\$19.6 million) and approximately HK\$61.1 million (31 December 2019: total comprehensive expense of approximately HK\$22.5 million) respectively.

It was mainly caused by (i) the continuous weakened market sentiment during the second half of 2020 due to the novel coronavirus pandemic, and mandatory closure of cinemas and social distancing measures implemented by the Hong Kong Government, resulting in a significant decrease in the revenue from the film exhibition business; and (ii) revenue recorded from sales of certain movie and television copyrights during the corresponding period in 2019, while there was no such revenue recorded during the Period under Review. The decrease was offset by results generated from the pan-entertainment segment, including increasing revenue from artiste management services and sale of merchandise under self-owned retail brands.

IMPAIRMENT LOSS ON RIGHT-OF-USE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (“IMPAIRMENT”)

Background

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 relating to 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 31 December 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 was acquired at various time from the relevant suppliers in the course of the establishment of the Cinemas.

Circumstances leading to the Impairment

At the end of the six months ended 31 December 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 decrease in movie viewers since the first quarter of 2020 due to the adverse impact of the novel coronavirus disease (COVID-19) outbreak;
- (d) 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
- (e) the need to adopt a reasonable approach in evaluating the cashflow to be generated from the cinema operation by the adoption of a discount rate of 13.5% 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 Period under Review and assessed and considered during the course of the preparation of the interim financial information of the Company for the six months period ended 31 December 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 recognized 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 novel coronavirus disease (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 13.5%. The key assumptions include 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group's bank balances and cash amounted to approximately HK\$137.5 million (30 June 2020: approximately HK\$112.3 million), which are denominated mainly in Hong Kong Dollar ("HK\$"), United States Dollar ("US\$") and Renminbi ("RMB").

As at 31 December 2020, the Group's total debts included bank and other borrowings, bonds payable, loans from related companies and a controlling shareholder, which amounted to approximately HK\$85.2 million, approximately HK\$51.5 million and approximately HK\$179.5 million, respectively (30 June 2020: approximately HK\$67.0 million, approximately HK\$51.5 million and approximately HK\$147.5 million, respectively). As at 31 December 2020, the Group's gearing ratio, representing the ratio of total debts to total assets, was approximately 15.1% (30 June 2020: approximately 14.9%).

On 16 May 2019, 16 September 2019 and 24 February 2020, the Group and Royston Securities Limited (the "Placing Agent") entered into placing agreements, 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, 24 February 2020, and 21 August 2020 respectively. As at 31 December 2020, the Group's bonds payable amounted to approximately HK\$51.5 million.

As at 31 December 2020, the Group had total non-current assets of approximately HK\$1,262.8 million (30 June 2020: approximately HK\$1,308.9 million), net current liabilities of approximately HK\$202.6 million (30 June 2020: net current liabilities of approximately HK\$126.3 million) and net assets of approximately HK\$157.3 million (30 June 2020: approximately HK\$205.6 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 0.8 as at 31 December 2020 (30 June 2020: approximately 0.8).

During the Period under Review, the Group mainly funded its liquidity by the bank borrowings, loans from related companies and 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

During the Period under Review, the Group did not have any material acquisition or disposal of subsidiaries and associates.

EVENTS AFTER THE REPORTING PERIOD

- (a) As set out in the Company's announcement dated 18 January 2021, Cinema City Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("Agreement") with Mandarin Film and Culture Development Limited (the "Purchaser"), a company beneficially owned by Mr. Wong Pak Ming who is a director of certain subsidiaries of the Company and he is considered as a connected person of the Company, for the sale of the entire equity interest in Cinema City (WL) Limited holding Cinema City (Hong Kong) Limited, Cinema City (Chai Wan) Limited, Cinema City (TW) Limited and Screen Media & Promotion Limited, to the Purchaser at a consideration of HK\$108.2 million ("Disposal Transaction").

Upon the completion of the Disposal Transaction, Cinema City (WL) Limited will enter into the management agreement with the Company in relation to the provision of management services by Cinema City (WL) Limited to the Company in respect of the management of the cinema located at Langham Place operated by a subsidiary of the Company for the period of 1 February 2021 to 31 January 2024, at a monthly service fee of HK\$50,000. The management agreement will constitute an exempt continuing connected transaction for the Company.

As at the date of this announcement, the Disposal Transaction has not been completed. Further details of the Disposal Transaction are set out in the circular of the Company dated 25 February 2021.

- (b) Subsequent to the end of the reporting period, the Group obtained new loan facility agreements with a related company and the controlling shareholder amounting to RMB38 million and RMB10 million, respectively and the full amounts were withdrawn by the Group in February 2021.

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 six months ended 31 December 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 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”). Having made specific enquiries, 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 six months ended 31 December 2020.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the six months ended 31 December 2020, it complied with and did not deviate from the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the Company’s shareholders and investors.

AUDIT COMMITTEE

The Audit Committee has three members comprising three Independent Non-executive Directors, 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 the external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; 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 recommendations thereof. The interim results of the Group for the six months ended 31 December 2020 have not been audited but have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.transmit-ent.com) and the Stock Exchange (www.hkexnews.hk). The interim report 2020/21 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 second half of 2020. 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, 26 February 2021

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.