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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 2021

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$457.0 million for the year ended 30 June 2021, representing a decrease of approximately HK\$8.5 million or 1.8% as compared to last year.
- The pan entertainment and other businesses recorded a total revenue of approximately HK\$188.8 million for the year ended 30 June 2021, representing a significant increase of approximately 920.2% as compared to last year. The Group's proportion of revenue from Mainland China increased by 19.1 percentage points year-on-year to approximately 83.7%, 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\$7.6 million for the year ended 30 June 2021, as compared to a loss of approximately HK\$126.6 million in the last year. Market sentiment continued to be weak mainly due to the impact of COVID-19, resulting in a significant decline in revenue from the film exhibition business. On 26 May 2021, the Group completed a disposal of certain equity interests in the film exhibition business, generating a one-off gain of approximately HK\$114.6 million on such disposal.
- The Board does not recommend the payment of final dividend for the year ended 30 June 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	456,988	465,534
Cost of sales		<u>(325,857)</u>	<u>(291,830)</u>
Gross profit		131,131	173,704
Other gains and losses	5	115,287	(2,790)
Other income	5	70,416	42,348
Selling and distribution expenses		(159,453)	(181,793)
Administrative expenses		(82,413)	(60,997)
Impairment loss on property, plant and equipment		–	(2,189)
Reversal of impairment loss (impairment loss) on trade and other receivables under expected credit loss model		44	(2,998)
Impairment loss on right-of-use assets		–	(28,895)
Fair value change on purchased call option		4,781	–
Fair value change on contingent consideration payable		1,268	(6,161)
Finance costs	6	(67,382)	(57,630)
Share of results of associates		–	(855)
Share of results of a joint venture		(8)	(6)
Profit (loss) before tax		13,671	(128,262)
Income tax (expense) credit	7	(5,450)	885
Profit (loss) for the year	8	8,221	(127,377)
Other comprehensive income (expense) for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Reclassification adjustments upon disposal of an associate included in profit or loss		–	(321)
Exchange difference arising on translating foreign operation		24,144	(1,144)
		<u>24,144</u>	<u>(1,465)</u>
Total comprehensive income (expense) for the year		<u>32,365</u>	<u>(128,842)</u>

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Profit (loss) for the year attributable to:			
– Owners of the Company		(7,633)	(126,598)
– Non-controlling interests		<u>15,854</u>	<u>(779)</u>
		<u>8,221</u>	<u>(127,377)</u>
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		16,511	(128,063)
– Non-controlling interests		<u>15,854</u>	<u>(779)</u>
		<u>32,365</u>	<u>(128,842)</u>
Loss per share			
Basic (HK cents)	<i>10</i>	<u>(0.29)</u>	<u>(4.88)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i> (restated)
Non-current assets			
Property, plant and equipment		1,415	74,689
Right-of-use assets		170,517	668,311
Goodwill	<i>11</i>	473,363	432,622
Derivative financial assets		20,332	15,551
Intangible assets	<i>12</i>	91,325	102,416
Interest in a joint venture		155	163
Rental deposits		15,089	14,878
Pledged bank deposits		21,000	–
Deferred tax assets		–	297
		793,196	1,308,927
Current assets			
Film rights	<i>13</i>	–	–
Television series production in progress	<i>13</i>	518,780	163,736
Inventories		3,863	1,249
Trade and other receivables	<i>14</i>	168,970	126,281
Contract assets		23,647	16,599
Rental deposits		–	13,389
Loan to a related party		2,761	–
Financial assets at fair value through profit or loss		12,274	7,040
Restricted bank balances		2,898	13,098
Pledged bank deposits		668	21,667
Bank balances and cash		103,823	112,263
		837,684	475,322
Current liabilities			
Trade and other payables	<i>15</i>	275,986	215,806
Contract liabilities		356,999	60,695
Tax payable		9,797	5,713
Bank and other borrowings	<i>16</i>	78,556	22,000
Loans from related companies	<i>17</i>	–	30,303
Amount due to the controlling shareholder		–	27,500
Bonds payable		14,308	22,000
Amount due to a joint venture		380	385
Contingent consideration payable		69,082	145,262
Lease liabilities		63,890	71,962
		868,998	601,626
Net current liabilities		(31,314)	(126,304)
Total assets less current liabilities		761,882	1,182,623

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000 (restated)
Non-current liabilities			
Deposits received		383	383
Bonds payable		13,281	29,500
Bank and other borrowings	16	18,000	45,000
Loans from related companies	17	188,992	89,721
Loans from the controlling shareholder		38,560	–
Contingent consideration payable		70,865	103,693
Deferred tax liabilities		21,215	23,231
Lease liabilities		160,778	685,490
		<hr/>	<hr/>
		512,074	977,018
		<hr/>	<hr/>
Net assets		249,808	205,605
		<hr/>	<hr/>
Capital and reserves			
Share capital	18	6,489	6,489
Reserves		(16,024)	(44,373)
		<hr/>	<hr/>
Deficit in shareholders' equity		(9,535)	(37,884)
Perpetual bonds	19	204,600	204,600
Non-controlling interests		54,743	38,889
		<hr/>	<hr/>
Total equity		249,808	205,605
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

1A. GENERAL INFORMATION

The Company is a 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, P.O. 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 Islands (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 also the Company's functional currency.

1B. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2021, the Group had net current liabilities of HK\$31,314,000 (2020: HK\$126,304,000). The net current liabilities included contract liabilities of HK\$356,999,000 (2020: HK\$60,695,000) which will be recognised as revenue upon the delivery of the TV program to TV broadcast networks and shall not have any cash outflow to the Group, bank and other borrowings of HK\$78,556,000 (2020: HK\$22,000,000) which was repayable within one year, bonds payable of HK\$14,308,000 (2020: HK\$22,000,000) which was repayable within one year.

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 TV series production through distribution and new loan facility granted by the controlling shareholder amounting to HK\$45,000,000 on 31 July 2021 which was unsecured, interest-free and repayable on 30 July 2023. 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.

Adjustment to goodwill subsequent to acquisition

A valuation report for the acquisition of a subsidiary for the year ended 30 June 2020 was received in the current year. The comparative figures have been restated as if the initial accounting had been completed from the acquisition date. The impact of the restatements is set out in note 11.

2. NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (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 consolidated financial statements:

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

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021.

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Film and TV series production, distribution and licensing income	205,335	307,144
Film exhibition income	62,828	139,861
Pan entertainment income	188,825	18,509
Others	–	20
Total	<u>456,988</u>	<u>465,534</u>
Timing of revenue recognition		
At a point in time	345,694	376,256
Over time	111,294	89,278
Total	<u>456,988</u>	<u>465,534</u>

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

Performance obligations for contracts with customers

- a. Film and TV series production, distribution and licensing
 - i. Income from the distribution of variety shows and TV series program is recognised when the production is completed, variety shows and TV series program have been released and distributed to TV broadcast networks and the amounts can be measured reliably, which are generally when TV broadcast networks confirms to the Group its 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 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 including celebrity agency service and actor service. Income from celebrity agency service is recognised at a point of time when the services are delivered. Income from actor service is recognised over time as performance obligation is satisfied.
- d. Others

Revenue from the sale of post-production goods is recognised when the goods are delivered and titles have passed.

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 pan entertainment 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 (the “CODM”), for the purposes of resource allocation and assessment of segment performance is based on the following reportable and operating segments identified under HKFRS 8 *Operating Segments*.

- (i) Film and TV series production, distribution and licensing;
- (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 subsidiaries in the People’s Republic of China (the “PRC”).

Segment profit (loss) represent the profit earned or loss incurred by each segment without allocation of head office and corporate expenses, certain finance costs, fair value change on contingent consideration payable, fair value change on purchased call option, gain on disposal of associates, gain/loss on disposal of subsidiaries, share of result of a joint venture and share of results of associates. This is the measure reported to the CODM for the purposes of resources 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 2021

	Film and TV series production, distribution and licensing	Film exhibition	Pan entertainment	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue					
– External customers	<u>205,335</u>	<u>62,828</u>	<u>188,825</u>	<u>–</u>	<u>456,988</u>
Segment profit (loss)	<u>3,775</u>	<u>(93,016)</u>	<u>40,998</u>	<u>–</u>	<u>(48,243)</u>
Unallocated head office and corporate expenses					(37,088)
Fair value change on contingent consideration payable					1,268
Unallocated finance costs					(21,605)
Fair value change on purchased call option					4,781
Gain on disposal of subsidiaries					114,566
Share of results of a joint venture					<u>(8)</u>
Profit before tax					<u>13,671</u>

For the year ended 30 June 2020

	Film and TV series production, distribution and licensing <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)
Unallocated 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>

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.

Other segment information

For the year ended 30 June 2021

	Film and TV series production, distribution and licensing HK\$'000	Film exhibition HK\$'000	Pan entertainment HK\$'000	Others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss:						
Amortisation of intangible assets	-	-	(17,557)	-	-	(17,557)
Depreciation of right-of-use assets	(881)	(100,699)	(1,981)	-	(2,633)	(106,194)
Depreciation of property, plant and equipment	(279)	(8,684)	(96)	-	(21)	(9,080)
Interest income	196	14	285	-	543	1,038
Finance costs	(63)	(45,555)	(159)	-	(21,605)	(67,382)
Reversal of impairment loss on trade and other receivables	44	-	-	-	-	44

For the year ended 30 June 2020

	Film and TV series production, distribution and licensing HK\$'000	Film exhibition HK\$'000	Pan entertainment HK\$'000	Others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss:						
Amortisation of intangible assets	-	-	(4,389)	-	-	(4,389)
Depreciation of right-of-use assets	(2,341)	(106,725)	(265)	-	(164)	(109,495)
Depreciation of property, plant and equipment	(283)	(11,717)	(39)	(1)	(12)	(12,052)
Interest income	197	287	67	-	-	551
Finance costs	(4,483)	(49,493)	(97)	-	(3,557)	(57,630)
Impairment loss of right-of-use assets	-	(28,895)	-	-	-	(28,895)
Impairment loss on property, plant and equipment	-	(2,189)	-	-	-	(2,189)
Impairment loss on trade receivables	(2,998)	-	-	-	-	(2,998)

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong and Macau	65,740	152,836
Mainland, the People's Republic of China (the "PRC")	382,302	300,873
Others	8,946	11,825
	<u>456,988</u>	<u>465,534</u>

The Group's non-current assets (excluded financial assets and deferred tax assets) by geographical location of the assets are details below:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland, PRC	564,843	541,784
Hong Kong	171,932	736,417
	<u>736,775</u>	<u>1,278,201</u>

Information about major customers

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A ¹	94,787	85,724
Customer B ¹	N/A²	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.

5. OTHER GAINS AND LOSSES AND OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other gains and losses		
Gain (loss) on disposal of subsidiaries	114,566	(4,838)
Net foreign exchange gain (loss)	721	(2,210)
Gain on disposal of associates	–	4,258
	<u>115,287</u>	<u>(2,790)</u>
Other income		
Handling service income	1,405	1,936
Membership income	896	864
Interest income	1,038	551
Rent concessions	20,169	15,889
Government subsidy received	15,162	3,556
Coupon sales income from film producers	13,483	3,515
Cinema promotion income	1,993	4,153
Commission income from artiste management	12,019	8,001
Others	4,251	3,883
	<u>70,416</u>	<u>42,348</u>

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest expenses on:		
Loans from related companies	9,576	3,379
Lease liabilities	45,855	49,679
Bank and other borrowings	6,522	1,030
Bonds payable	4,050	3,542
Loans from the controlling shareholder	1,379	–
	<u>67,382</u>	<u>57,630</u>

7. INCOME TAX EXPENSE (CREDIT)

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax - PRC Enterprise Income Tax (“EIT”)	7,128	349
Deferred tax	<u>(1,678)</u>	<u>(1,234)</u>
	<u>5,450</u>	<u>(885)</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] and Cai Shui [2021] No. [27], enterprises newly established in Khorgas special economic areas and 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*) could enjoy EIT exemption for five years starting from its first operation income-generating year during the period from 2011 to 2020, and from 2021 to 2030 respectively. 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 relevant PRC tax bureau on 23 June 2017 for entitlement of EIT exemption from 1 January 2017 to 31 December 2021. In July 2020, another subsidiary of the Group obtained the approval from the relevant PRC tax bureau for entitlement of EIT exemption from 1 January 2020 to 31 December 2024.

* *For identification only*

8. LOSS FOR THE YEAR

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Directors' emoluments	4,087	4,049
Other staff costs	49,767	43,463
Retirement benefit scheme contributions, excluding those of the Directors	<u>4,547</u>	<u>2,948</u>
Total staff costs	<u>58,401</u>	<u>50,460</u>
Auditors' remuneration	2,600	2,600
Depreciation of property, plant and equipment	9,080	12,052
Depreciation of right-of-use assets	106,194	109,495
Amortisation of intangible assets	17,557	4,389
Cost of television series production in progress	149,037	161,024
Impairment loss on property, plant and equipment	–	2,189
Impairment loss on right-of-use assets	–	28,895
Short-term leases rental expenses for premises	3,450	1,412
Variable lease payments for cinemas	70	585
Cost of scriptwriters for TV series production	23,769	20,315
Cost of services provided for TV series production	27,835	24,052
Cost of services provided for film exhibition	26,978	46,944
Cost of artiste and internet celebrity agency business	97,766	33,483
Cost of inventories sold	<u>472</u>	<u>2,574</u>

9. DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

10. LOSS PER SHARE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(7,633)</u>	<u>(126,598)</u>
	2021	2020
Number of shares		
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 issued for both 2021 and 2020.

11. GOODWILL AND IMPAIRMENT ASSESSMENT

	Goodwill <i>HK\$'000</i>
COST	
At 1 July 2019	592,960
Exchange adjustments	(17,887)
Arising on acquisition of a subsidiary (restated)	38,633
Disposal of subsidiaries	<u>(181,084)</u>
At 30 June 2020 (restated)	432,622
Exchange adjustments	<u>40,741</u>
At 30 June 2021	<u>473,363</u>
IMPAIRMENT	
At 1 July 2019	181,084
Disposal of subsidiaries (<i>note 20</i>)	<u>(181,084)</u>
At 30 June 2020 and 2021	<u>–</u>
CARRYING AMOUNTS	
At 30 June 2021	<u>473,363</u>
At 30 June 2020, restated	<u>432,622</u>

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units (“CGUs”). The carrying amounts of goodwill allocated to these CGUs are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Khorgas Houhai Culture Media Company Limited (<i>note a</i>)	429,805	393,989
聞瀾(上海)文化傳媒有限公司 (“Wenlan”) (<i>note b</i>)	43,558	38,633
Chili Advertising & Promotions Limited (“Chili”) (<i>note c</i>)	<u>–</u>	<u>–</u>
	<u>473,363</u>	<u>432,622</u>

Notes:

- (a) During the year ended 30 June 2019, the Group had 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 in TV series production in progress segment.

The recoverable amount of Khorgas Group has been determined based on a value in use calculation.

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 3% to 36% (2020: 3% to 38%) and pre-tax discount rate of 26.0% (2020: 25.2%) per annum as at 30 June 2021. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 2.4% (2020: 3.0%) 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.

During the year ended 30 June 2021, the Directors determined that there is no impairment on the CGU of Khorgas Group containing goodwill (2020: Nil). The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of the Khorgas Group to exceed its recoverable amount.

- (b) During the year ended 30 June 2020, the Group has acquired 60% of equity interest in Wenlan and goodwill of HK\$38,633,000 (restated) was resulted from the acquisition in pan-entertainment segment.

The recoverable amount of Wenlan has been determined based on a value in use calculation.

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 annual revenue growth rate of -38% to 3% (2020: 3% to 62%) and pre-tax discount rate of 27.5% (2020: 27.6%) per annum as at 30 June 2021. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 3% (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.

During the year ended 30 June 2021, Management determined that there is no impairment on Wenlan containing goodwill (2020: Nil). The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of Wenlan to exceed its recoverable amount.

- (c) On 30 November 2019, the Group entered into an agreement to dispose of the entire equity interest in Chili Advertising and Promotions Limited (“Chili”) 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. The disposal was completed on 10 December 2019.

12. 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 2019	–	5,600	31,900	37,500
Acquisition of a subsidiary	106,805	–	–	106,805
Disposal of subsidiaries	–	(5,600)	(31,900)	(37,500)
	<u>106,805</u>	<u>–</u>	<u>–</u>	<u>106,805</u>
At 30 June 2020	106,805	–	–	106,805
Exchange adjustments	6,466	–	–	6,466
	<u>113,271</u>	<u>–</u>	<u>–</u>	<u>113,271</u>
At 30 June 2021	113,271	–	–	113,271
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 July 2019	–	–	31,900	31,900
Provided for the year	4,389	–	–	4,389
Eliminated on disposal of subsidiaries	–	–	(31,900)	(31,900)
	<u>4,389</u>	<u>–</u>	<u>–</u>	<u>4,389</u>
At 30 June 2020	4,389	–	–	4,389
Provided for the year	17,557	–	–	17,557
	<u>21,946</u>	<u>–</u>	<u>–</u>	<u>21,946</u>
At 30 June 2021	21,946	–	–	21,946
CARRYING AMOUNTS				
At 30 June 2021	91,325	–	–	91,325
At 30 June 2020	102,416	–	–	102,416

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.

13. FILM RIGHTS AND TELEVISION SERIES PRODUCTION IN PROGRESS

	Film rights <i>HK\$'000</i>	Television series production in progress <i>HK\$'000</i>
COST		
At 1 July 2019	784,204	174,078
Additions	–	190,791
Transfer upon completion and sold	–	(156,237)
Disposal of subsidiaries	(8,142)	–
Exchange adjustments	–	(5,021)
	<u>776,062</u>	<u>203,611</u>
At 30 June 2020	776,062	203,611
Additions	–	517,215
Transfer upon completion and sold	–	(176,927)
Exchange adjustments	–	14,756
	<u>776,062</u>	<u>558,655</u>
At 30 June 2021	776,062	558,655
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2019	779,417	39,875
Charged for the year	4,787	–
Disposal of subsidiaries	(8,142)	–
	<u>776,062</u>	<u>39,875</u>
At 30 June 2020 and 2021	776,062	39,875
CARRYING AMOUNTS		
At 30 June 2021	<u>–</u>	<u>518,780</u>
At 30 June 2020	<u>–</u>	<u>163,736</u>

Note: No impairment loss has been recognised on film rights and television series production in progress during the years ended 30 June 2021 and 2020.

14. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	78,311	81,968
Less: Allowance for expected credit losses	(1,982)	(2,998)
	<u>76,329</u>	<u>78,970</u>
Other receivables, deposits and prepayments	7,737	11,166
Other receivable from TV series	37,724	8,637
Less: Allowance for expected credit losses	(972)	–
	<u>44,489</u>	<u>19,803</u>
Prepayment for artiste management agency and scriptwriters	10,503	4,160
Prepayments to suppliers	10,814	16,629
Other deposits and prepayments for cinema operation	492	2,213
Other tax recoverable	26,343	4,506
	<u>168,970</u>	<u>126,281</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 date, at the end of the reporting period is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables:		
0 - 30 days	21,372	6,121
31 - 60 days	3,226	5,218
61 - 90 days	381	70
91 - 180 days	22	1,093
181 - 365 days	18,478	66,468
Over one year	32,850	–
	<u>76,329</u>	<u>78,970</u>

15. TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	88,233	29,846
Other payables and accruals	51,388	40,008
Investment funds from investors measured at amortised cost (<i>note i</i>)	55,800	22,481
Investment funds from investors at fair value through profit or loss (<i>note i</i>)	10,728	–
Advances from former shareholder of subsidiaries acquired (<i>note iii</i>)	38,256	35,068
Consideration payable in respect of acquisition of a subsidiary (<i>note iv</i>)	–	52,800
Deposits received (<i>note ii</i>)	383	929
Payable to film producers (<i>note v</i>)	1,587	22,729
Accrued services fee for artiste management and TV series production (<i>note vi</i>)	<u>29,994</u>	<u>12,328</u>
	276,369	216,189
Less: amount shown under non-current liabilities (<i>note ii</i>)	<u>(383)</u>	<u>(383)</u>
Amount shown under current liabilities	<u>275,986</u>	<u>215,806</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. The following is analysis of the Group's trade payables at the end of the reporting period:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 60 days	59,144	13,353
Within 61 to 90 days	11,271	–
Within 91 to 365 days	12,694	16,493
Over 365 days	5,124	–
	88,233	29,846

Notes:

- (i) Investment funds from investors represent the share of return on TV series produced by the Group and the return are either fixed or variable based on contracts with other investors.
- (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.
- (iii) Advances from former shareholder of subsidiaries acquired are non-trade related, unsecured, interest-free and repayable on demand.
- (iv) The amounts represented consideration payable in respect of acquisition of 60% equity interest in Wenlan in March 2020. The amount has been settled during the current year.
- (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 2021.
- (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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank borrowings:		
Fixed-rate and secured (<i>note i</i>)	39,600	22,000
Variable-rate and unsecured (<i>note ii</i>)	1,200	–
	<u>40,800</u>	<u>22,000</u>
Other borrowings (<i>note iii</i>)	55,756	45,000
	<u>96,556</u>	<u>67,000</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Carrying amount repayable (based on scheduled repayment terms):		
Within one year or on demand	78,556	22,000
More than one year, but not exceeding two years	18,000	45,000
	<u>96,556</u>	<u>67,000</u>
Less: Amounts due shown under current liabilities:		
On demand or due within one year	<u>(78,556)</u>	<u>(22,000)</u>
Amounts due after one year	<u>18,000</u>	<u>45,000</u>

Notes:

- (i) During the year ended 30 June 2021, the Group obtained new fixed rate and secured bank borrowings amounting to approximately HK\$45,600,000 (2020: HK\$22,000,000) and repaid bank borrowings of HK\$30,000,000 (2020: HK\$26,220,000). The bank borrowings are secured by bank deposits of HK\$21,000,000 (2020: HK\$21,000,000) and guaranteed by an insurance company in the PRC.
- (ii) During the year ended 30 June 2021, the Group obtained new variable-rate and unsecured bank borrowings amounting to approximately HK\$1,200,000 (2020: Nil).
- (iii) During the year ended 30 June 2021, Khorgas Houhai Culture Media Company Limited (“Khorgas Houhai”), a wholly owned subsidiary of the Company, borrowed a loan of RMB45,000,000 (equivalent to HK\$55,756,000) from a third party company, which is secured by trade receivable amounting to RMB19,705,000 (equivalent to HK\$23,647,000) as at 30 June 2021, bearing-interest at 15% per annum and repayable on 22 February 2022.

Other borrowing of HK\$45,000,000 as at 30 June 2020 was loan from Mr. Wong, and Pure Project Limited in which Mr. Wong has controlling interests during the year ended 30 June 2020, and was unsecured, interest-free and was fully settled during the current year.

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

	2021	2020
Fixed-rate bank borrowings: RMB denominated borrowings	3.6% to 4.8%	4.5% to 4.8%
Variable-rate bank borrowings: RMB denominated borrowings	4.15%	N/A

17. LOANS FROM RELATED COMPANIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loans from related companies		
– Loan 1 (<i>note i</i>)	29,532	25,303
– Loan 2 (<i>note ii</i>)	104,473	89,721
– Loan 3 (<i>note iii</i>)	–	5,000
– Loan 4 (<i>note iv</i>)	54,987	–
	<u>188,992</u>	<u>120,024</u>
Analysed as:		
Current liabilities	–	30,303
Non-current liabilities	188,992	89,721
	<u>188,992</u>	<u>120,024</u>

Notes:

- (i) The balance as at 30 June 2021 represents a loan of RMB23,000,000 (equivalent to HK\$27,600,000) plus accrued interest of RMB1,619,000 (equivalent to HK\$1,932,000) from Guangzhou Puji. The loan advance is unsecured, interest-bearing at 7% per annum and repayable in July 2022.
- (ii) The balance as at 30 June 2021 represents loans of RMB78,520,000 (equivalent to HK\$94,224,000) plus accrued interest of RMB8,541,000 (equivalent to HK\$10,249,000) from Guangzhou Black Hole Investment Limited, a company in which Mr. Zhang has controlling interests. The loan advance is unsecured, interest bearing at 7% per annum and repayable in July 2022.
- (iii) During the year ended 30 June 2020, the Group borrowed a loan 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 was settled in the current year.
- (iv) During the year ended 30 June 2021, Guangzhou Daide Management Consultancy Company Limited (“Guangzhou Daide”), a wholly-owned subsidiary of the Company, borrowed loan of RMB12,000,000 (equivalent to HK\$14,400,000) and loan of RMB38,680,000 (equivalent to HK\$46,416,000) from Guangzhou Puji, a company in which Mr. Zhang has controlling interests. The loan advances are unsecured, interest-free and repayable in July 2022 and February 2023 respectively.

18. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2019, 30 June 2020 and 30 June 2021	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2019, 30 June 2020 and 30 June 2021	<u>2,595,613,733</u>	<u>6,489</u>

19. PERPETUAL BONDS

On 29 June 2020, two wholly-owned subsidiaries of the Company issued perpetual bond (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, a company in which Mr. Zhang, the controlling shareholder 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.

20. DISPOSAL OF SUBSIDIARIES

For the year ended 30 June 2021

(a) *Disposal of subsidiaries of Cinema City Group Limited*

On 18 January 2021, Cinema City Group Limited, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Mandarin Film and Culture Development Limited, a company which is beneficially owned by Mr. Wong Pak Ming (“Mr. Wong”) who is a connected person of the Company at the subsidiary level, to dispose of the entire equity interest in Cinema City (WL) Limited which indirectly held the entire equity interests in Cinema City (Hong Kong) Limited, Cinema City (Chai Wan) Limited, Cinema City (TW) Limited and Screen Media & Promotion Limited, at a cash consideration of HK\$108,200,000. The disposed entities are mainly engaged in cinema operation of the Group which included four out of five cinemas operated in Hong Kong by the Group. The disposal was completed on 26 May 2021, on which date when the control of disposed entities passed to the acquirer.

Consideration received:

	<i>HK\$'000</i>
Cash received	<u>108,200</u>

Analysis of assets and liabilities over which control was lost:

	Total <i>HK\$'000</i>
Property, plant and equipment	64,391
Right-of-use assets	401,166
Rental deposits	16,210
Other deposits	147
Deferred tax assets	40
Inventories	370
Trade and other receivables	6,048
Bank balances and cash	23,372
Trade and other payables	(26,656)
Contract liabilities	(9,449)
Lease liabilities	<u>(482,005)</u>
Net liabilities disposed of	<u>(6,366)</u>

Gain on disposal of subsidiaries:

	<i>HK\$'000</i>
Cash received	108,200
Less: net liabilities disposed of	<u>6,366</u>
Gain on disposal	<u>114,566</u>

Net cash inflow arising on disposal:

	<i>HK\$'000</i>
Cash received	108,200
Cash and cash equivalents disposed of	<u>(23,372)</u>
	<u>84,828</u>

For the year ended 30 June 2020*(a) Disposal of Chili Group*

On 30 November 2019, the Group entered into an agreement to dispose of the entire equity interest in Chili Group to an independent third party, at a cash consideration of HK\$7,000,000. Chili Group is engaged in advertising and marketing business. The disposal was completed on 10 December 2019, on which date when the control of Chili Group was passed to the acquirer.

(b) *Disposal of Star Pictures Entertainment (Hong Kong) Limited ("Star Pictures")*

On 30 November 2019, the Group entered into an agreement to dispose the entire equity interest of Star Pictures, an indirect wholly-owned subsidiary of the Company, to an independent third party, at a cash consideration of HK\$100,000. Star Pictures is engaged in film production and distribution business. The disposal was completed on 4 December 2019, on which date when the control of Star Pictures was passed to the acquirer.

Consideration received:

	Chili Group <i>HK\$'000</i>	Star Pictures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash received	<u>7,000</u>	<u>100</u>	<u>7,100</u>

Analysis of assets and liabilities over which control was lost:

	Chili Group <i>HK\$'000</i>	Star Pictures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Plant and equipment	10	–	10
Intangible assets	5,600	–	5,600
Trade and other receivables	486	2,039	2,525
Tax recoverable	97	–	97
Bank balances and cash	1,295	50	1,345
Trade and other payables	<u>(659)</u>	<u>(943)</u>	<u>(1,602)</u>
Net assets disposed of	<u>6,829</u>	<u>1,146</u>	<u>7,975</u>

Loss on disposal:

	Chili Group <i>HK\$'000</i>	Star Pictures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash received	7,000	100	7,100
Non-controlling interests	(3,963)	–	(3,963)
Net assets disposed of	<u>(6,829)</u>	<u>(1,146)</u>	<u>(7,975)</u>
Loss on disposal	<u>(3,792)</u>	<u>(1,046)</u>	<u>(4,838)</u>

Net cash inflow on disposal:

	Chili Group <i>HK\$'000</i>	Star Pictures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash consideration received	7,000	100	7,100
Cash and cash equivalents disposed of	<u>(1,295)</u>	<u>(50)</u>	<u>(1,345)</u>
	<u>5,705</u>	<u>50</u>	<u>5,755</u>

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 one Hong Kong based cinema. During the year ended 30 June 2021, 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 19.1 percentage points year-on-year to approximately 83.7% from approximately 64.6% last year. Mainland China continued to be the 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. For the year ended 30 June 2021, film, TV series and variety show production and distribution business remained as the core business of the Group with reported revenue of approximately HK\$205.3 million, representing a decrease of approximately 33.1% as compared to last year, mainly due to the fact that no new movie was released during the year ended 30 June 2021, and certain TV series and variety shows were still in production, the revenue of which was not yet recognized in the year.

The 24-episode new urban idol drama “The Trick of Life and Love”, directed by Li Yanqian, was launched on the video website Mango TV in May 2021. It continued to arouse heated discussions among audiences on multiple internet platforms such as Weibo, Maoyan, and Douban, quickly occupied the major hot lists such as the Guduo Heat Index rankings (骨朵熱度指數排行榜) and the Beacon Real-time Broadcast Volume rankings (燈塔即時播放量排行榜). At the same time, the megahit reality show “The Detectives’ Adventures” was aired on the video website iQIYI in May 2021. Through restoring the classic scenes of many popular film and television works, it was integrated into script killing and room escape, which are the two forms of entertainment that is widely popular among young audiences, and has repeatedly appeared on Weibo’s hot searches, which has aroused heated discussions among fans all over the network. In addition, the urban romantic drama “Miss Crow and Mr. Lizard”, directed by Wu Qiang, was exclusively aired on Tencent Video in April 2021; the urban romantic drama “How Adorable the Programmer” (程序員那麼可愛) adapted from a popular comic strip, has been broadcasted in September 2021 on Tencent Video; the costume sweet-pet web drama “Xu Chunchun’s Camellia Luck” (許純純的茶花運) has been completed in February 2021 and will be broadcasted exclusively on iQIYI.

Film exhibition

During the year ended 30 June 2021, market sentiment continued to be weak due to the impact of the COVID-19 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 year ended 30 June 2021, resulting in a significant decrease in size of audience compared to last year. The Group's film exhibition revenue decreased by approximately 55.1% to approximately HK\$62.8 million for the year as compared to last year, accounting for approximately 13.7% of the Group's total revenue.

Considering that the COVID-19 pandemic has brought about a challenging business environment for the film exhibition business, the Group disposed partial equity interests in the film exhibition business aiming to reallocate financial resources to other businesses with higher development potential, thereby generating better returns for shareholders of the Company (the "Shareholders"). The disposal transaction was completed on 26 May 2021. Thereafter, in accordance with a management agreement and a supplemental agreement entered into between the Group, Cinema City (WL) Limited and Mandarin Motion Pictures Limited, the Group earned fees for the operation of Langham Place Cinema within the term of the agreement. The management believes that the above-mentioned strategic measures will have a positive impact on the Group's future results and financial performance. For further details of the disposal and the management agreement, please refer to the announcements of the Group dated 18 January 2021 and 26 May 2021, respectively.

Pan entertainment and other businesses

During the year ended 30 June 2021, 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 of internet celebrities under our management 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 light luxury beauty brands during the year ended 30 June 2021 with a focus on creating beauty boutiques for young female consumers through precise marketing.

For artiste and internet celebrity agency business, a number of TV series that our artiste, Yang Chaoyue starred in, including “The Promise of Chang’an”, “Midsummer is Full of Love” and “Dance of the Phoenix”, were officially released, and the megahit TV series “The Ideal City” in which she played a role has been broadcasted in August 2021 on the video website iQIYI, and “Heroes” is also expected to be broadcasted in the second half of 2021. 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, has been broadcasted during February to April 2021, while “The Dark Clouds Meet the Bright Moon” has been completed in February 2021.

Benefiting from the continued growth in business scale, the Group’s pan entertainment and other businesses recorded a total revenue of approximately HK\$188.8 million for the year, representing a significant increase of approximately 920.2% as compared to approximately HK\$18.5 million last year. This business segment achieved a profit turnaround during the year ended 30 June 2021 and recorded a profit of approximately HK\$41.0 million (30 June 2020: loss of approximately HK\$23.1 million).

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group for the year amounted to approximately HK\$457.0 million, representing a decrease of approximately HK\$8.5 million or 1.8% as compared to last year, mainly contributed by revenue from the pan entertainment and the other segments, and the business segments of film, TV series and variety show production and distribution of approximately HK\$188.8 million and HK\$205.3 million, respectively.

For the film, TV series and variety show production and distribution segment, the Group recorded revenue mainly from TV series, variety show, script writing and directing during the year ended 30 June 2021. The Group recorded revenue from sales of certain movie and television copyrights last year, while there was no such revenue recorded during the year ended 30 June 2021. For the film exhibition segment, due to the impact of the COVID-19 pandemic, market sentiment was still weak during the year ended 30 June 2021, 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\$188.8 million from artiste management services and sale of merchandise under self-owned retail brands during the year ended 30 June 2021, representing a significant increase of approximately 920.2% as compared to last year. This was mainly benefited from the growth in agency and celebrity business.

Gross profit of the Group was approximately HK\$131.1 million, representing a decrease of approximately HK\$42.6 million or approximately 24.5% as compared to last year. Gross profit margin for the year decreased year-on-year by approximately 8.6 percentage points to approximately 28.7%, mainly due to the fact that the revenue recorded during the year was mainly derived from scriptwriting and directing, and the Group also recorded revenue from disposal of certain films and television copyrights with a higher gross profit margin last year. During the year ended 30 June 2021, the gross profit margin of scriptwriting and directing business remained the same as compared to last year.

Other gains and losses and other income

During the year ended 30 June 2021, other gains and losses and other income was approximately HK\$185.7 million, representing an increase of approximately HK\$146.1 million or approximately 369.4% as compared to last year, which was mainly due to a one-off gain of HK\$114.6 million on a disposal of partial equity interests in the film exhibition business completed on 26 May 2021 by the Group and the rent concessions from landlords and government subsidies from the Hong Kong Government received by our cinemas.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$22.3 million or 12.3% from approximately HK\$181.8 million last year to approximately HK\$159.5 million for the year, which was mainly due to the fact that the Group completed the disposal of partial equity interests in the film exhibition business on 26 May 2021, reducing the sales and distribution expenses of the related film exhibition business.

Administrative expenses

Administrative expenses increased by approximately HK\$21.4 million or approximately 35.1% from approximately HK\$61.0 million last year to approximately HK\$82.4 million for the year, 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 year

The Group's loss and total comprehensive income attributable to owners of the Company for the year amounted to approximately HK\$7.6 million (30 June 2020: loss of approximately HK\$126.6 million) and approximately HK\$16.5 million (30 June 2020: total comprehensive expense of approximately HK\$128.1 million) respectively.

The decrease in loss for the year was mainly caused by (i) the continuous weakened market sentiment during the year ended 30 June 2021 due to the COVID-19 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. On 26 May 2021, the Group completed a disposal of partial equity interests in the film exhibition business, generating a one-off gain of HK\$114.6 million on such disposal; (ii) the impairment loss of property, plant and equipment related to movie theater operation and the impairment loss of right-of-use assets were recorded at approximately HK\$31.1 million last year, and no such impairment loss was recorded during the year ended 30 June 2021; and (iii) revenue recorded from sales of certain movie and television copyrights last year, while there was no such revenue recorded during the year ended 30 June 2021. 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

As disclosed in note 20, the Group completed the disposal of the equity interests in numerous subsidiaries that operate the film exhibition business of four Hong Kong cinemas on 26 May 2021.

The Impairment for the year amounted to HK\$Nil (2020: HK\$31.1 million) was made on right-of-use assets derived from the lease agreements of several 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 2021 and 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 was acquired at various time from the relevant suppliers in the course of the establishment of the Cinemas.

Circumstances leading to the Impairment

For the years ended 30 June 2021 and 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 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 year 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 13.3% (30 June 2020: 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 years ended 30 June 2021 and 30 June 2020 and assessed and considered during the course of the preparation of the annual financial information of the Company for the years ended 30 June 2021 and 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 cash flow 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 intensification 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 13.3% (30 June 2020: 13.5%). 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 more suitable discount rate when making cash flow projections, the Board considers that the Impairment is fair and reasonable.

Taking into account the challenging environment of film exhibition business brought about by the COVID-19 pandemic, the Group has reallocated its financial resources to the other businesses, which have higher development potential, by disposing partial equity interests of the film exhibition business, in order to generate more return for the Shareholders. The disposal was completed on 26 May 2021. Subsequent to the disposal, pursuant to a management agreement and a supplemental agreement entered by the Group with Cinema City (WL) Limited and Mandarin Motion Pictures Limited, the Group earns fee for the operation of the Langham Cinema during the term of the agreements. The management believes that the above strategies and measures will proactively pose a positive effect on the Group's future results and financial performance. Please refer to the Group's announcements dated 18 January 2021 and 26 May 2021 respectively for further information on the disposal and the management agreement.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2021, the Group's bank balances and cash amounted to approximately HK\$103.8 million (30 June 2020: approximately HK\$112.3 million), which are denominated mainly in HK\$, United States Dollar ("US\$") and Renminbi ("RMB").

As at 30 June 2021, the Group's total debts, including bank and other borrowings, bonds payable, loans from related companies and a controlling shareholder amounted to approximately HK\$96.6 million, approximately HK\$27.6 million, approximately HK\$189.0 million and approximately HK\$38.6 million, respectively (30 June 2020: approximately HK\$67.0 million, approximately HK\$51.5 million, approximately HK\$120.0 million and approximately HK\$27.5 million, respectively). As at 30 June 2021, the gearing ratio, representing the ratio of total debts to the total assets, was approximately 21.6% (30 June 2020: approximately 14.9%).

As at 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 Company dated 16 May 2019, 16 September 2019, 24 February 2020 and 21 August 2020 respectively. As at 30 June 2021, the Group's bonds payable amounted to approximately HK\$27.6 million.

As at 30 June 2021, the Group had total non-current assets of approximately HK\$793.2 million (30 June 2020: approximately HK\$1,308.9 million), net current liabilities of approximately HK\$31.3 million (30 June 2020: net current liabilities of approximately HK\$126.3 million) and net assets of approximately HK\$249.8 million (30 June 2020: approximately HK\$205.6 million). The current ratio of the Group, representing the ratio of current assets to current liabilities, was approximately 0.96 as at 30 June 2021 (30 June 2020: approximately 0.79).

During the year ended 30 June 2021, the Group mainly funded its liquidity by bank borrowings, bonds, loans from related companies and the 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

As at 18 January 2021, Cinema City Group Limited, a wholly-owned subsidiary of the Company, and a purchaser (a company beneficially owned by Mr. Wong Pak Ming, a director of certain subsidiaries of the Company who is deemed as the connected person of the Company) entered into an agreement. Pursuant to which, the purchaser purchased the entire equity interests in Cinema City (WL) Limited, which holds Cinema City (Hong Kong) Limited, Cinema City (Chai Wan) Limited, Cinema City (TW) Limited and Screen Media & Promotion Limited, at the consideration of HK\$108.2 million. The disposal was completed on 26 May 2021. Upon completion of the disposal, Cinema City (WL) Limited and the Company entered into a management agreement, in respect of the management of the Cinema located in Langham Place, Mong Kok and the Company, Cinema City (WL) Limited and Mandarin Motion Pictures Limited entered into a supplemental agreement, under which Mandarin Motion Pictures Limited agreed to provide the Company with management services during the terms of the agreement. The management agreement will constitute an exempt continuing connected transaction of the Company. Please refer to the Company's circular dated 25 February 2021 and announcements dated 18 January 2021 and 26 May 2021, respectively, for further information on the disposal, the management agreement and the supplemental agreement.

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 2021 and there was no plan authorised by the Board for material investments or additions of capital assets during the year ended 30 June 2021.

HUMAN RESOURCES

As at 30 June 2021, the Group employed a total of 220 permanent employees (30 June 2020: 308) in Mainland China and Hong Kong. The total salaries and wages, including the Directors' remuneration and part-time workers' salary, amounted to approximately HK\$58.4 million during the year ended 30 June 2021 (30 June 2020: approximately HK\$50.5 million).

The Group offers remuneration packages for employees mainly based on their performances and experiences, and with reference to prevailing industry practices. In addition to enrolling our new employees into the mandatory provident fund scheme in Hong Kong and the State-managed pension scheme in the PRC 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 performances 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 2021, the Group had bank deposits amounting to approximately HK\$0.7 million (30 June 2020: approximately HK\$0.7 million) that were pledged to banks 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 of RMB33,000,000 (equivalent to approximately HK\$39,600,000) were secured by pledged bank deposits of HK\$21,000,000 and guaranteed by an insurance company in the PRC, and loan advances of RMB45,000,000 (equivalent to approximately HK\$55,756,000) from a third party company were secured by trade receivable amounting to RMB19,705,000 (equivalent to approximately HK\$23,647,000).

TREASURY POLICY

The Group's business operations were conducted mainly in PRC 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

As at 30 June 2020 and 2021, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2020 and 2021, 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 2021 (30 June 2020: Nil).

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, and strives to develop a pan entertainment business and integrate upstream and downstream industry chains by proactively expanding various realization channels from downstream industry chains in a bid to attain our strategic deployment of firmly combining our strengths and resources. Taking advantages of ample resources 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 inspiring urban workplace TV series “The Ideal City” independently produced by the Group, in which Sun Li (孫儷) and Zhao You Ting (趙又廷) starred as protagonists, was broadcasted on the video site iQIYI exclusively in August 2021. Having a realistic plot and portrayal of characters with depth, this series depicts a vivid and unconventional image of a workplace community, which has become a well acclaimed domestically produced workplace drama in the summer of 2021. Since its launch, the series has continuously initiated broad attention and discussion online, and achieved an excellent performance with a 7.8 rating on Douban and heat of 8000+ on iQIYI. At the same time, a number of projects of the Group are currently under production, including TV dramas “Romance in the City” (半城風月) and “Holding My Koi Husband” (抱住錦鯉相公). With the good performance and online popularity of the first and second seasons, 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 film and television production of a series of popular copyrighted works of fiction including “Love Destiny”(愛有天意), “Wishful Egg”(如意蛋), “Peach Blossom Debt”(桃花債) and “Locard’s Theory”(洛卡爾定律).

The Group's management believes that as the business gradually recovers from the effects of COVID-19 pandemic and the PRC market continues to lead the economy of the Asia-Pacific region towards recovery, the Group's business operation will fully return to its pre-pandemic level, the constant enhancement of the capability of the production teams and the variety of film and television copyrights reserve will benefit the Group in continuously grasping development opportunities in the PRC market, allowing business to grow steadily and unceasingly 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 the combined resources of scriptwriting, directing 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 build up a unique soft power, thereby continuously enhancing profitability, sharpening competitive edges in the industry and generating favorable long term 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 2021.

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 2021.

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 2021.

EVENTS AFTER REPORTING PERIOD

Subsequent to the end of the reporting period, Mr. Zhang Liang, Johnson, a controlling shareholder of the Company, advanced the Company a loan advance of HK\$45,000,000 on 31 July 2021. The loan advance was unsecured, interest-free and payable on 30 July 2023. The loan was fully withdrawn on 2 August 2021.

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 2021 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 2021.

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 and the related notes thereto for the year ended 30 June 2021 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 Hong Kong Institute of Certified Public Accountants 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 (“AGM”) of the Company will be held on Friday, 26 November 2021 at 3:00 p.m. The register of members of the Company will be closed from Tuesday, 23 November 2021 to Friday, 26 November 2021, 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, 22 November 2021.

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 2020/21 will be dispatched to the Shareholders in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the year ended 30 June 2021. 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 the 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.

On behalf of the Board
Transmit Entertainment Limited
Zhang Liang, Johnson
Chairman

Hong Kong, 27 September 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.