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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 2021

FINANCIAL HIGHLIGHTS

- For the six months ended 31 December 2021 (the “Period under Review”), the Group recorded revenue of approximately HK\$587.2 million, representing an increase of approximately HK\$426.4 million or 265.2% as compared to the corresponding period last year.
- The film and TV series production and distribution segment recorded revenue of approximately HK\$502.2 million for the Period under Review, representing a significant increase of approximately 1,296.4% as compared to the corresponding period last year. The Group’s proportion of revenue from Mainland China increased by 17.7 percentage points year-on-year to approximately 96.8%, with Mainland China continuing to be the major source of revenue and business growth for the Group.
- The Group reported a profit attributable to owners of the Company of approximately HK\$10.6 million for the six months ended 31 December 2021, as compared to a loss of approximately HK\$76.0 million (restated) for the corresponding period last year. The Group’s turnaround performance from loss to profit was principally due to (i) the successful launch of the inspiring urban workplace TV series “The Ideal City” and the megahit mystery solving reality show “The Detectives’ Adventures” in August and May 2021 respectively. Revenue of the two TV programs were recognised in the Period under Review, and has resulted in a significant year-on-year increase in revenue from the business segments of film and TV series production and distribution; and (ii) the completion of the disposal of partial equity interests in the film exhibition business by the Group on 26 May 2021, reducing the sales and distribution expenses of the related film exhibition business.
- The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2021.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

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 2021 together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2021

		Six months ended	
		31 December	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited) (restated)
Revenue	3	587,203	160,779
Cost of sales		<u>(494,974)</u>	<u>(67,630)</u>
Gross profit		92,229	93,149
Other gains and losses	5	630	2,520
Other income	5	19,595	25,684
Selling and distribution expenses		(34,045)	(92,924)
Administrative expenses		(45,398)	(48,688)
Impairment loss on property, plant and equipment		–	(293)
Impairment loss on right-of-use assets		–	(11,075)
Fair value change on purchased call option	1	(3,107)	3,718
Fair value change on contingent consideration payable		(4,937)	(2,702)
Finance costs	6	<u>(9,725)</u>	<u>(32,954)</u>
Profit (loss) before tax		15,242	(63,565)
Income tax expense	7	<u>(2,399)</u>	<u>(47)</u>
Profit (loss) for the period	8	<u>12,843</u>	<u>(63,612)</u>

	Six months ended	
	31 December	
	2021	2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
		(restated)
Other comprehensive income for the period		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange difference arising on translating foreign operations	<u>6,979</u>	<u>19,021</u>
	<u>6,979</u>	<u>19,021</u>
Total comprehensive income (expense) for the period	<u>19,822</u>	<u>(44,591)</u>
Profit (loss) for the period attributable to:		
– Owners of the Company	10,554	(75,997)
– Non-controlling interests	<u>2,289</u>	<u>12,385</u>
	<u>12,843</u>	<u>(63,612)</u>
Total comprehensive income (expense) for the period attributable to:		
– Owners of the Company	17,533	(57,334)
– Non-controlling interests	<u>2,289</u>	<u>12,743</u>
	<u>19,822</u>	<u>(44,591)</u>
Earnings (loss) per share		
Basic (HK cents)	<u>0.41</u>	<u>(2.93)</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

		31 December 2021	30 June 2021
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		1,130	1,415
Right-of-use assets		142,015	170,517
Goodwill	11	481,152	473,363
Derivative financial assets		–	20,332
Intangible assets		82,571	91,325
Interest in a joint venture		155	155
Rental deposits		15,716	15,089
Pledged bank deposits		40,000	21,000
		762,739	793,196
Current assets			
Film rights	12	–	–
Television series production in progress	12	250,136	518,780
Inventories		3,237	3,863
Trade and other receivables	13	191,280	168,970
Contract assets		–	23,647
Loan to a related party		2,768	2,761
Financial assets at fair value through profit or loss		24,515	12,274
Derivative financial assets		17,563	–
Restricted bank balances		8,715	2,898
Pledged bank deposits		21,668	668
Bank balances and cash		113,106	103,823
		632,988	837,684

		31 December 2021	30 June 2021
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Current liabilities			
Trade and other payables	<i>14</i>	263,987	275,986
Contract liabilities	<i>14</i>	77,617	356,999
Tax payable		13,309	9,797
Bank and other borrowings	<i>15</i>	79,640	78,556
Loans from related companies	<i>16</i>	10,420	–
Bonds payable		16,836	14,308
Amount due to a joint venture		392	380
Contingent consideration payable		72,646	69,082
Lease liabilities		71,619	63,890
		606,466	868,998
Net current assets (liabilities)		26,522	(31,314)
Total assets less current liabilities		789,261	761,882
Non-current liabilities			
Deposits received	<i>14</i>	–	383
Bonds payable		–	13,281
Bank and other borrowings	<i>15</i>	35,380	18,000
Loans from related companies	<i>16</i>	31,006	188,992
Loans from the controlling shareholder	<i>17</i>	–	38,560
Contingent consideration payable		66,884	70,865
Deferred tax liabilities		19,020	21,215
Lease liabilities		124,596	160,778
		276,886	512,074
Net assets		512,375	249,808
Capital and reserves			
Share capital	<i>18</i>	6,489	6,489
Reserves		(7,758)	(16,024)
Deficit in shareholders' equity		(1,269)	(9,535)
Perpetual bonds	<i>P. 7 – note(ii)</i>	456,612	204,600
Non-controlling interests		57,032	54,743
Total equity		512,375	249,808

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2021

	Attributable to owners of the Company						Non-		Total
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> <i>(Note i)</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Perpetual bonds <i>HK\$'000</i> <i>(Note ii)</i>	controlling interests <i>HK\$'000</i>	
At 1 July 2020	<u>6,489</u>	<u>521,046</u>	<u>10</u>	<u>531</u>	<u>(565,960)</u>	<u>(37,884)</u>	<u>204,600</u>	<u>38,889</u>	<u>205,605</u>
(Loss) profit for the period (restated)	-	-	-	-	(75,997)	(75,997)	-	12,385	(63,612)
Exchange difference arising on translating foreign operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,663</u>	<u>-</u>	<u>18,663</u>	<u>-</u>	<u>358</u>	<u>19,021</u>
Total comprehensive income (expense) for the period (restated)	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,663</u>	<u>(75,997)</u>	<u>(57,334)</u>	<u>-</u>	<u>12,743</u>	<u>(44,591)</u>
At 31 December 2020 (unaudited and restated)	<u>6,489</u>	<u>521,046</u>	<u>10</u>	<u>19,194</u>	<u>(641,957)</u>	<u>(95,218)</u>	<u>204,600</u>	<u>51,632</u>	<u>161,014</u>
At 1 July 2021	<u>6,489</u>	<u>521,046</u>	<u>11,848</u>	<u>24,675</u>	<u>(573,593)</u>	<u>(9,535)</u>	<u>204,600</u>	<u>54,743</u>	<u>249,808</u>
Profit for the period	-	-	-	-	10,554	10,554	-	2,289	12,843
Exchange difference arising on translating foreign operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,979</u>	<u>-</u>	<u>6,979</u>	<u>-</u>	<u>-</u>	<u>6,979</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,979</u>	<u>10,554</u>	<u>17,533</u>	<u>-</u>	<u>2,289</u>	<u>19,822</u>
Issuance of perpetual bonds	<u>-</u>	<u>-</u>	<u>(9,267)</u>	<u>-</u>	<u>-</u>	<u>(9,267)</u>	<u>252,012</u>	<u>-</u>	<u>242,745</u>
At 31 December 2021 (unaudited)	<u>6,489</u>	<u>521,046</u>	<u>2,581</u>	<u>31,654</u>	<u>(563,039)</u>	<u>(1,269)</u>	<u>456,612</u>	<u>57,032</u>	<u>512,375</u>

Notes:

- (i) Other reserve of HK\$10,000 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").

Other reserve of HK\$11,838,000 represents an initial fair value adjustments of loan advances from Mr. Zhang Liang, Johnson ("Mr. Zhang"), the controlling shareholder of the Company, and Guangzhou Puji Real Estate Agency Co. Limited ("Guangzhou Puji"), a company in which Mr. Zhang has controlling interest, which are unsecured, interest-free and each repayable in July 2022 and February 2023 respectively. Such fair value adjustments measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates were considered as deemed contribution from the controlling shareholder.

In July 2021, loans from Guangzhou Puji and Mr Zhang were repaid by issue of perpetual bonds, see details in note (ii). The difference amounting to HK\$9,267,000 between the fair value of perpetual bonds issued and the carrying amounts of loans derecognised was recognised against the above deemed contribution from the controlling shareholder.

- (ii) On 29 June 2020, two wholly-owned subsidiaries of the Company 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 and the perpetual bonds are redeemable at the issuers' option on or after 28 June 2025.

On 1 July 2021 and 13 July 2021, Guangzhou Daide Management Consultancy Company Limited ("Guangzhou Daide"), a wholly-owned subsidiary of the Company, issued perpetual bonds amounting to RMB78,520,000 (equivalent to HK\$94,224,000) and RMB58,990,000 (equivalent to HK\$70,788,000), respectively to Guangzhou Black Hole Investment Limited ("Black Hole"), a company in which Mr. Zhang has controlling interests, and Guangzhou Puji for the purpose of repaying the outstanding loan balance. On 1 July 2021 and 31 July 2021, Guangzhou Daide and the Company issued perpetual bonds amounting to RMB35,000,000 (equivalent to HK\$42,000,000) and HK\$45,000,000 to Mr. Zhang respectively, for the purpose of repaying the outstanding loan balance. The perpetual bonds are redeemable at the issuer's option on or after 30 June 2025.

Interests are payable annually in arrears at a fixed rate of 4.5% per annum respectively, 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 2021

1. BASIS OF PREPARATION

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

Adjustment to goodwill subsequent to acquisition

A valuation report for the acquisition of a subsidiary for the year ended 30 June 2020 was received during the year ended 30 June 2021, which indicates that the fair value of the purchased call option at the date of acquisition was RMB12,959,000 (equivalent to HK\$15,551,000). The comparative information presented in the condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of changes in equity for the six months ended 31 December 2020 have been restated as if the initial accounting had been completed from the acquisition date. Gain on fair value change on purchased call option of HK\$3,718,000 was recognised in profit or loss during the six months ended 31 December 2020.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2021 are the same as those presented in the Group’s annual financial statements for the year ended 30 June 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied 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 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, *Interest Rate Benchmark Reform – Phase 2*
HKFRS 7, HKFRS 4 and HKFRS 16

The application of the amendments to HKFRSs in the current interim period 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.

3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Film and TV series production, distribution and licensing income	502,244	35,968
Film exhibition income	19,030	26,585
Pan entertainment income	65,929	98,226
Total	<u>587,203</u>	<u>160,779</u>
Timing of revenue recognition		
At a point in time	500,031	154,786
Over time	87,172	5,993
Total	<u>587,203</u>	<u>160,779</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 variety shows and TV series program have been released and distributed to TV broadcast networks.

- 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.
- iii. Income from scriptwriters and directors service on TV series production is recognised over time as performance obligation is satisfied.

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.

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, pan entertainment and others are for periods of one year or less. As permitted under HKFRS 15 Revenue from Contracts with Customers, 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 resources 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; and
- (iii) Pan entertainment.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 2. Segment profit (loss) represents 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 and fair value change on purchased call option. 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 six months ended 31 December 2021 (unaudited)

	Film and TV series production, distribution and licensing <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>502,244</u>	<u>19,030</u>	<u>65,929</u>	<u>587,203</u>
Segment profit (loss)	<u>54,132</u>	<u>(892)</u>	<u>(11,316)</u>	41,924
Unallocated head office and corporate expenses				(17,022)
Fair value change on contingent consideration payable				(4,937)
Unallocated finance costs				(1,616)
Fair value change on purchased call option				<u>(3,107)</u>
Profit before tax				<u>15,242</u>

For the six months ended 31 December 2020 (unaudited and restated)

	Film and TV series production, distribution and licensing <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <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>160,779</u>
Segment profit (loss)	<u>782</u>	<u>(77,642)</u>	<u>30,182</u>	(46,678)
Unallocated head office and corporate expenses				(15,768)
Fair value change on contingent consideration payable				(2,702)
Unallocated finance costs				(2,135)
Fair value change on purchased call option (restated)				<u>3,718</u>
Loss before tax (restated)				<u>(63,565)</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 film and TV series production, distribution and licensing income, film exhibition income, pan entertainment income and others is derived from are as below:

	Six months ended	
	31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Hong Kong	19,030	28,317
Mainland, the People's Republic of China (the "PRC")	568,173	127,238
Others	–	5,224
	<u>587,203</u>	<u>160,779</u>

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

	31 December	30 June
	2021	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Mainland, PRC	569,966	564,843
Hong Kong	137,057	171,932
	<u>707,023</u>	<u>736,775</u>

5. OTHER GAINS AND LOSSES AND OTHER INCOME

	Six months ended	
	31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Other gains and losses		
Net foreign exchange gain	630	2,520
	<u>630</u>	<u>2,520</u>
Other income		
Handling service income	592	561
Interest income	350	311
Government subsidy received (<i>note i</i>)	2,523	4,971
Cinema promotion income	3,286	–
Coupon sales income from film producers	439	1,086
Rent concessions	–	8,966
Membership income	–	242
Commission income from artiste management	–	2,216
Others	12,405	7,331
	<u>19,595</u>	<u>25,684</u>

Note:

- i. Amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development and recognised upon receipt. There are no unfulfilled conditions or contingencies relating to these subsidies.

6. FINANCE COSTS

	Six months ended	
	31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest expenses on:		
Loans from related companies	983	3,980
Lease liabilities	3,333	25,234
Bank and other borrowings	4,776	1,630
Bonds payable	633	2,110
	<u>9,725</u>	<u>32,954</u>

7. INCOME TAX EXPENSE

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax: PRC Enterprise Income Tax (“EIT”)	4,594	2,242
Deferred tax	(2,195)	(2,195)
Income tax expense	<u>2,399</u>	<u>47</u>

Pursuant to the rules and regulations of Cayman Islands, the Company is not subject to any income tax in Cayman Islands 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\$2,000,000 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 periods.

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. PROFIT (LOSS) FOR THE PERIOD

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) for the period has been arrived at after charging:		
Directors' emoluments	2,048	2,046
Other staff costs	19,502	28,152
Retirement benefit scheme contributions, excluding those of the directors	1,588	2,214
	<u>23,138</u>	<u>32,412</u>
Total staff costs		
	<u>23,138</u>	<u>32,412</u>
Auditors' remuneration	1,275	1,385
Depreciation of property, plant and equipment	226	4,701
Depreciation of right-of-use assets	17,074	55,592
Amortisation of intangible assets	8,778	8,778
Cost of television series production	407,264	3,914
Short-term lease expenses for premises	1,053	295
Variable lease payments for cinemas	–	41
Cost of scriptwriters for television series production	14,721	11,167
Cost of services provided for television series production	14,371	13,210
Cost of services provided for film exhibition	10,295	9,797
Cost of artiste and internet celebrity agency business	48,089	28,117
Cost of inventories sold	234	1,425

9. DIVIDEND

The directors of the Company (the "Directors") resolved not to declare any interim dividend for both periods.

10. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited and restated)
Profit (loss)		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share	<u>10,554</u>	<u>(75,997)</u>
	Six months ended	
	31 December	
	2021	2020
	(unaudited)	(unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	<u>2,595,613,733</u>	<u>2,595,613,733</u>

No diluted earnings (loss) per share is presented as the Company has no potential ordinary shares in issue during both periods.

11. GOODWILL AND IMPAIRMENT ASSESSMENT

For the purpose of impairment testing, goodwill has been allocated to two CGUs, each comprising a subsidiary, 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 聞瀾(上海)文化傳媒有限公司 (Wenlan (Shanghai) Culture Communication Co., Ltd) (“Wenlan”). During the six months ended 31 December 2021, no impairment loss has been recognised in profit or loss (six months ended 31 December 2020: nil).

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 annual revenue growth rate of 3% to 74% (30 June 2021: 3% to 36%) and pre-tax discount rate of 26.0% (30 June 2021: 26.0%) per annum as at 31 December 2021. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 2.4% (30 June 2021: 2.4%) 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 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 annual revenue growth rate ranging from 3% to 14% (30 June 2021: -38% to 3%) and pre-tax discount rate of 25.0% (30 June 2021: 27.5%) per annum as at 31 December 2021. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 3% (30 June 2021: 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 to exceed its recoverable amount.

The carrying amount of goodwill as at 31 December 2021 allocated to Khorgas Group and Wenlan are HK\$436,968,000 (30 June 2021: HK\$429,805,000) and HK\$44,184,000 (30 June 2021: HK\$43,558,000), respectively.

12. 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 2020	776,062	203,611
Transfer upon completion and sold	–	(176,927)
Additions	–	517,215
Exchange adjustments	–	14,756
	<u>776,062</u>	<u>558,655</u>
At 30 June 2021	776,062	558,655
Additions	–	135,558
Transfer upon completion and sold	–	(407,264)
Disposal	–	(3,556)
Exchange adjustments	–	6,618
	<u>776,062</u>	<u>290,011</u>
At 31 December 2021	<u>776,062</u>	<u>290,011</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2020, 30 June 2021 and 31 December 2021	<u>776,062</u>	<u>39,875</u>
CARRYING AMOUNTS		
At 31 December 2021 (unaudited)	<u>–</u>	<u>250,136</u>
At 30 June 2021 (audited)	<u>–</u>	<u>518,780</u>

No impairment loss has been recognised on television series production in progress during both periods.

13. TRADE AND OTHER RECEIVABLES

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Trade receivables	131,195	78,311
Less: Allowance for expected credit losses	(2,482)	(1,982)
	<u>128,713</u>	<u>76,329</u>
Other receivables, deposits and prepayments	13,619	7,737
Other receivable from TV series	8,938	37,724
Less: Allowance for expected credit losses	(472)	(972)
	<u>22,085</u>	<u>44,489</u>
Prepayment for artiste management agency and scriptwriters	30,970	10,503
Prepayments to suppliers	1,467	10,814
Other deposits and prepayments for cinema operation	314	492
Other tax recoverable	7,731	26,343
	<u>191,280</u>	<u>168,970</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:

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Trade receivables:		
0 – 30 days	71,940	21,372
31 – 60 days	42,322	3,226
61 – 90 days	–	381
91 – 180 days	6,867	22
181 – 365 days	–	18,478
Over one year	7,584	32,850
	<u>128,713</u>	<u>76,329</u>

Generally, with the exception of PRC TV series 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 negatives to the customers. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$14,451,000 (30 June 2021: HK\$20,923,000) which are past due as at the reporting date. Out of the past due balances, HK\$14,451,000 (30 June 2021: HK\$17,520,000) has been past due 90 days or more and is not considered as in default by considering the background of the debtors and historical payment arrangement. The Group does not hold any collateral over these balances.

14. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Trade payables	88,726	88,233
Other payables and accruals	70,205	51,388
Investment funds from investors measured at amortised cost (<i>note i</i>)	7,930	55,800
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>)	38,894	38,256
Deposits received (<i>note ii</i>)	15,329	383
Payable to film producers (<i>note iv</i>)	–	1,587
Accrued services fee for artiste management and TV series production (<i>note v</i>)	42,903	29,994
	263,987	276,369
Less: amount shown under non-current liabilities (<i>note ii</i>)	–	(383)
Amount shown under current liabilities	263,987	275,986
Contract liabilities (<i>note vi</i>)	77,617	356,999

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:

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Within 60 days	64,885	59,144
Within 61 to 90 days	93	11,271
Within 91 to 365 days	10,669	12,694
Over 365 days	13,079	5,124
	88,726	88,233

Notes:

- (i) Investment funds from investors represent investors' entitlement to the 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 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.
- (v) The amounts represented the accrued services fee payable to the artiste management agency, film director and scriptwriters of TV series production.
- (vi) Deposits are received by the Group as the instalments of the PRC 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 on a case-by-case 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.

15. BANK AND OTHER BORROWINGS

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Bank borrowings:		
Fixed-rate and secured (<i>note i</i>)	28,060	39,600
Variable-rate and unsecured	–	1,200
Variable-rate and secured (<i>note ii</i>)	35,380	–
	63,440	40,800
Other borrowings (<i>note iii</i>)	51,580	55,756
	115,020	96,556

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

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Carrying amount repayable (based on scheduled repayment terms):		
Within one year or on demand	79,640	78,556
More than one year, but not exceeding two years	35,380	18,000
	115,020	96,556
Less: Amounts due shown under current liabilities:		
On demand or due within one year	(79,640)	(78,556)
Amounts due after one year	35,380	18,000

Notes:

- (i) The balance as at 31 December 2021 represents fixed rate secured bank borrowings amounting to approximately RMB23,000,000 (equivalent to HK\$28,060,000) (30 June 2021: HK\$39,600,000), of which (1) the amount of RMB15,000,000 (equivalent to HK\$18,300,000) (30 June 2021: HK\$18,000,000), is with a fixed interest rate of 4.10% per annum and repayable on 2 August 2022, secured by bank deposits of HK\$21,000,000 (30 June 2021: HK\$21,000,000); (2) the amount of RMB3,000,000 (equivalent to HK\$3,660,000) (30 June 2021: HK\$3,600,000), is with a fixed interest rate of 4.55% per annum and repayable on 25 May 2022 and guaranteed by an insurance company in the PRC; and (3) the amount of RMB5,000,000 (equivalent to HK\$6,100,000) (30 June 2021: HK\$6,000,000), is with fixed interest rate of 3.60% per annum and repayable on 17 May 2022 and guaranteed by a director of the Company. During the six months ended 31 December 2021, the Group repaid bank borrowings of HK\$12,000,000 on 2 December 2021.
- (ii) During the six months ended 31 December 2021, the Group obtained new variable-rate and secured bank borrowings amounting to approximately RMB29,000,000 (equivalent to HK\$35,380,000) (30 June 2021: nil), repayable on 23 February 2023. The floating rate of the borrowing was based on the Loan Prime Rate published by PRC National Interbank Funding Center. The bank borrowings are secured by bank deposits of HK\$40,000,000 (30 June 2021: nil) as at 31 December 2021.
- (iii) The balance as at 31 December 2021 represents that Khorgas Houhai Culture Media Company Limited ("Khorgas Houhai"), a wholly owned subsidiary of the Company, borrowed a loan of RMB42,279,000 (equivalent to HK\$51,580,000) (30 June 2021: RMB45,000,000 (equivalent to HK\$55,756,000)) from a third party company, which is secured by trade receivable amounting to HK\$30,475,000 (30 June 2021: HK\$23,647,000) as at 31 December 2021, bearing interest at 15% per annum and repayable on 22 February 2022.

16. LOANS FROM RELATED COMPANIES

	31 December 2021 HK\$'000 (unaudited)	30 June 2021 HK\$'000 (audited)
Loans from related companies		
– Loan 1 (<i>note i</i>)	31,006	29,532
– Loan 2 (<i>note ii</i>)	10,420	104,473
– Loan 3 (<i>note iii</i>)	–	54,987
	41,426	188,992
Analysed as:		
– Current liabilities	10,420	–
– Non-current liabilities	31,006	188,992
	41,426	188,992

Notes:

- (i) The balance as at 31 December 2021, represents that, Khorgas Houhai, a wholly owned subsidiary of the Company, borrowed a loan of RMB23,000,000 (equivalent to HK\$28,060,000) (30 June 2021: RMB23,000,000 (equivalent to HK\$27,600,000)) plus accrued interest of RMB2,415,000 (equivalent to HK\$2,946,000) (30 June 2021: 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. In December 2021, the maturity date of the loan was extended to July 2023.
- (ii) The balance as at 31 December 2021 represents interest payables of RMB8,541,000 (equivalent to HK\$10,420,000) to loans from Black Hole (30 June 2021: loans of RMB78,520,000 (equivalent to HK\$94,224,000) plus accrued interests of RMB8,541,000 (equivalent to HK\$10,249,000)).

On 1 July 2021, the shareholder of Guangzhou Daide, a wholly-owned subsidiary of the Company, approved to issue perpetual bonds amounted to RMB78,520,000 (equivalent to HK\$94,224,000) to Black Hole for the purpose of repaying the outstanding principal loan balance, in which the perpetual bond is unsecured, interest-bearing at 4.5% per annum and Guangzhou Daide has the right to defer its repayment of interests payable to Black Hole at the discretion of the Group. Therefore, the perpetual bonds issued by Guangzhou Daide is classified as equity instruments.

- (iii) During the year ended 30 June 2021, Guangzhou Daide 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. The loan advances are unsecured, interest-free and repayable in July 2022 and February 2023 respectively. Guangzhou Daide borrowed additional loan of RMB8,310,000 (equivalent to HK\$9,972,000) from Guangzhou Puji during the current interim period, which is unsecured, interest-free and repayable in July 2023.

On 13 July 2021, the shareholder of Guangzhou Daide approved to issue perpetual bonds amounted to RMB58,990,000 (equivalent to HK\$70,788,000) to Guangzhou Puji for the purpose of repaying the outstanding loan balance, in which the perpetual bond is unsecured, interest-bearing at 4.5% per annum and Guangzhou Daide has the right to defer its repayment of interests payable to Guangzhou Puji at the discretion of the Group. Therefore, the perpetual bonds issued by Guangzhou Daide is classified as equity instruments.

17. LOANS FROM THE CONTROLLING SHAREHOLDER

As at 30 June 2021, the balance represents loans advances of RMB25,000,000 (equivalent to HK\$30,000,000) and RMB10,000,000 (equivalent to HK\$12,000,000) from Mr. Zhang, the controlling shareholder of the Company. The loan advances are unsecured, interest-free and repayable in July 2022 and February 2023 respectively.

In July 2021, the Group obtained additional loan advances of HK\$45,000,000 from Mr. Zhang. The loan advance is unsecured, interest-free and repayable in December 2023.

On 1 July 2021 and 31 July 2021, the shareholder of Guangzhou Daide and the Company approved to issue perpetual bonds amounted to RMB35,000,000 (equivalent to HK\$42,000,000) and HK\$45,000,000 respectively to Mr. Zhang for the purpose of repaying the outstanding loan balance. The perpetual bonds are unsecured, interest-bearing at 4.5% per annum. Guangzhou Daide and the Company have the right to defer its repayment of interests payable to Mr. Zhang at the discretion of the Group respectively. Therefore, the perpetual bonds are classified as equity instruments issued by the Group.

18. SHARE CAPITAL

	Number of Shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2020, 30 June 2021 (audited) and 31 December 2021 (unaudited)	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2020, 30 June 2021 (audited) and 31 December 2021 (unaudited)	<u>2,595,613,733</u>	<u>6,489</u>

19. RELATED PARTY DISCLOSURES AND NON-CASH TRANSACTION

(I) Transactions

Apart from the balances with related parties as disclosed in Note 16, 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	
			31 December	2020
			2021	2020
			HK\$'000	HK\$'000
			(unaudited)	(unaudited)
Black Hole	(a)	Interest expenses	–	3,078
Guangzhou Puji	(a)	Interest expenses	983	902
Skynova International Limited (“Skynova”)	(b)	Interest income	<u>135</u>	<u>–</u>

Notes:

- (a) The amounts represented the interest expenses or imputed interest expenses for the loan advances made to the Group from Black Hole and Guangzhou Puji which are beneficially owned by Mr. Zhang, the controlling shareholder and the executive director of the Company.
- (b) The interest income was received from Skynova for the loan provides to Skynova which are beneficially owned by Mr. Zhang, the controlling shareholder and the executive director of the Company.

(II) Non cash transaction

On 1 July 2021 and 13 July 2021, Guangzhou Daide issued perpetual bonds amounting to RMB78,520,000 (equivalent to HK\$94,224,000) and RMB58,990,000 (equivalent to HK\$70,788,000), respectively to Black Hole and Guangzhou Puji, companies in which Mr. Zhang has controlling interests, for the purpose of repaying the outstanding loan balance as detailed in Note 16. On 1 July 2021 and 31 July 2021, Guangzhou Daide and the Company issued perpetual bonds amounting to RMB35,000,000 (equivalent to HK\$42,000,000) and HK\$45,000,000 to Mr. Zhang respectively, for the purpose of repaying the outstanding loan balance as detailed in Note 17.

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; and (iii) pan entertainment. The Group mainly produces Chinese films, variety shows and TV series in Mainland China and Hong Kong, as well as currently operating one Hong Kong based cinema. During the Period under Review, the Group further advanced the “Stay-at-Home Economy” and its development strategy of brand diversification. The Group’s proportion of revenue from Mainland China recorded a year-on-year increase of 17.7 percentage points to approximately 96.8% from approximately 79.1% of the corresponding period last year. Mainland China continued to be the major source of the Group’s revenue and business growth.

Film, TV series and variety show production and distribution

Keeping up with the development of the industry and the entertainment tastes of young viewers, the Group has continued to focus on developing and producing quality contents for film, TV series and variety show, 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, recording revenue of approximately HK\$502.2 million, representing a significant increase of approximately 1,296.4% as compared to the corresponding period last year, mainly due to the successful airing of “The Ideal City” (理想之城), an inspiring urban workplace TV series, and “The Detectives’ Adventures” (萌探探探案), a megahit mystery solving reality show, in August and May 2021, respectively, and the revenue of which were recognized in the interim period.

Among which, “The Ideal City” aired on the video website iQIYI and numerous first-tier TV stations across the country, ranking first in the CSM63 TV series viewership ranking, as well as receiving more than ten industry honors and awards including being shortlisted for the 2018-2022 List of Key TV Series Planning and Theme of the National Radio and Television Administration, and was recognized as the “2021 Outstanding Show Broadcasting Overseas” by the National Radio and Television Administration. “The Detectives’ Adventures” creatively reinterprets a classic film and television copyright through live action role playing, introducing a production model for detective-themed variety show that appeals to audiences of all ages, successfully gaining multiple industry awards, including the 2021 Internet Viewing + Ranking Internet Variety Show of the Year and the Innovative Variety Show of the Year of the Sixth New Recreation • New Consumption etc. On the other hand, the scriptwriting team of the Group participated in popular TV shows such as the Lantern Festival Gala of China Media Group and variety show “Super Sketch Show”, continuously spurring related discussions and becoming a trending topic in multiple platforms.

Film exhibition

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 to reallocate financial resources to other businesses with higher development potential, thereby generating more 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 by the Group with Cinema City (WL) Limited and Mandarin Motion Pictures Limited, the Group earns fees for the operation of Langham Place Cinema during the term of the agreements. The management believes that the above-mentioned strategic measures will proactively pose 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.

Affected by the aforementioned disposal transaction, the film exhibition revenue of the Group during the Period under Review decreased approximately 28.4% as compared to the corresponding period last year, amounting to approximately HK\$19.0 million, representing approximately 3.2% of the total revenue of the Group.

Pan entertainment and other businesses

The Group continued to improve its industry chain and broaden its revenue base, and our artistes and internet celebrities continued to be more influential in market segments. During the Period under Review, our artistes starred in many TV series and movies, and participated in many endorsement activities. Among which, Yang Chaoyue starred in two costume TV dramas “Chongzi” (重紫) and “The Seventh Generation” (一時衝動七世吉祥), and Li Yitong starred in TV series such as “Warm Cold Nights In The Nine Heavens” (九霄寒夜暖), “Spy Game” (特工任務) and “Punch Out” (狂飆).

During the Period under Review, the Group’s pan entertainment and other businesses recorded revenue of approximately HK\$65.9 million in aggregation, representing a decrease of approximately 32.9% as compared to approximately HK\$98.2 million for the corresponding period last year. The business segment recorded loss of approximately HK\$11.3 million during the Period under Review (six months ended 31 December 2020: profit of approximately HK\$30.2 million).

OUTLOOK

Looking forward, the Group will continue to focus on the development of film and TV series production business as well as artiste and internet celebrity agency business in Mainland China, and strives to create a pan entertainment ecosystem and integrate upstream and downstream industry chains, while proactively expanding various realization channels from the downstream industry chains in a bid to attain our strategic deployment of fusing our strengths and resources. Taking advantages of the ample resources of online platforms, the Group will continue to focus on producing quality film and TV series content, while actively 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, internet celebrity cultivation and traffic monetization.

The Group is currently producing a number of projects, including an urban mystery TV series “Frozen Surface” (黑土無言) and the third season of variety show “I Love You, Me Too” (喜歡你，我也是). With the good viewing performance and online popularity of the work, the Group plans to create a self-developed multi-season variety show brand by producing the third season of “I Love You, Me Too” and the second season of “The Detectives’ Adventures”. In addition, the Group will develop and produce films and TV series on a number of popular copyrighted works of fiction including “Love Destiny” (愛有天意), “Wishful Egg” (如意蛋), “Romance in the City” (半城風月), “Peach Blossom Debt” (桃花債), “Queen of the Sea” (女船王) 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 the combined resources of scriptwriters, directors and celebrities 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 returns for the Group’s Shareholders.

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group during the Period under Review amounted to approximately HK\$587.2 million, representing an increase of approximately HK\$426.4 million or 265.2% as compared to the corresponding period last year, mainly contributed by the revenue from the business segment of film and TV series production and distribution, and the pan entertainment and other segments of approximately HK\$502.2 million and HK\$65.9 million, respectively.

For the film and TV series production and distribution segment, the revenue that the Group recorded during the Period under Review was mainly generated from producing TV series and variety shows. “The Ideal City”, the inspiring urban workplace TV series, and “The Detectives’ Adventures”, the megahit mystery solving reality show, successfully aired in August and May 2021, respectively, and the revenue of which were recognized during the Period under Review, driving a significant year-on-year growth on the revenue of the segment. For the film exhibition segment, on 26 May 2021, the Group completed the disposal of the partial equity interests in the film exhibition business and entered into a management agreement and supplemental agreement regarding the operation of Langham Cinema, so the revenue of the segment showed a year-on-year decrease. For the pan entertainment and other segments, the Group recorded total revenue of approximately HK\$65.9 million from artiste management services and sale of merchandise under self-owned retail brands during the Period under Review, representing a decrease of approximately 32.9% as compared to the corresponding period last year.

Gross profit of the Group was approximately HK\$92.2 million, representing a mild decrease for approximately HK\$0.9 million or approximately 1.0% as compared to the corresponding period last year. Gross profit margin for the Period under Review was approximately 15.7%, representing a decrease of approximately 42.2 percentage points from approximately 57.9% for the corresponding period last year, mainly due to the successful airing of “The Ideal City”, the inspiring urban workplace TV series, and “The Detectives’ Adventures”, the megahit mystery solving reality show, in August and May 2021, respectively, and the revenue of which were recognized during the Period under Review, driving a significant year-on-year growth on the revenue of the film and TV series production and distribution segment, hence the ratio of the segment’s revenue to the Group’s revenue reached 85.5% during the Period under Review. Meanwhile, the Group completed the disposal of partial equity interests in the film exhibition business on 26 May 2021, so the ratio of the film exhibition segment’s revenue to the Group’s revenue decreased to approximately 3.2% during the Period under Review. The gross profit margin of this segment was higher than that of the film and TV series production and distribution segment, which resulted in an overall decrease in the gross profit margin of the Group.

Other gains and losses and other income

During the Period under Review, other gains and losses and other income was approximately HK\$20.2 million, representing a decrease of approximately HK\$8.0 million or approximately 28.3% as compared to the corresponding period last year, mainly due to the rent concessions from landlords and government subsidies from the Hong Kong Government received by our cinemas in the corresponding period last year, but such gains significantly dropped during the Period under Review.

Selling and distribution expenses

Selling and distribution expenses decreased approximately HK\$58.9 million or approximately 63.4% from approximately HK\$92.9 million for the corresponding period last year to approximately HK\$34.0 million for the Period under Review, mainly due to the fact that the Group has 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 mildly decreased approximately HK\$3.3 million or approximately 6.8% from approximately HK\$48.7 million for the corresponding period last year to approximately HK\$45.4 million for the Period under Review, which was prompted by effective internal cost control measures and the disposal of partial equity interests in the film exhibition business on 26 May 2021.

Profit for the Period under Review

During the Period under Review, the Group's profit and total comprehensive income attributable to the owners of the Company were approximately HK\$10.6 million (six months ended 31 December 2020: loss of approximately HK\$76.0 million) and approximately HK\$17.5 million (31 December 2020: total comprehensive expenses of approximately HK\$57.3 million), respectively.

The Group's turnaround performance from loss to profit was mainly due to (i) the successful airing of "The Ideal City", the inspiring urban workplace TV series, and "The Detectives' Adventures", the megahit mystery solving reality show, in August and May 2021, respectively, and the revenue of which were recognized during the Period under Review, driving a significant year-on-year growth on the revenue of the film and TV series production and distribution segment; and (ii) the Group completed the disposal of partial equity interests in the film exhibition business on 26 May 2021, which lowered the sales and distribution expenses of the related film exhibition business.

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

Background

The Group had 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 period amounted to HK\$Nil (six months ended 31 December 2020: HK\$11.4 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 31 December 2021 and 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

For the periods ended 31 December 2021 and 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 2019 coronavirus disease (COVID-19) (“COVID-19”) outbreak;
- (d) the review and comparison of the budget of the Cinemas prepared for the period 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% (six months ended 31 December 2020: 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 periods ended 31 December 2021 and 31 December 2020 and assessed and considered during the course of the preparation of the financial information of the Company for the periods ended 31 December 2021 and 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 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 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% (six months ended 31 December 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 31 December 2021, the Group's bank balances and cash amounted to approximately HK\$113.1 million (30 June 2021: approximately HK\$103.8 million), which are denominated mainly in Hong Kong Dollar ("HK\$"), United States Dollar ("US\$") and Renminbi ("RMB").

As at 31 December 2021, the Group's total debts, including bank and other borrowings, bonds payable, loans from related companies and a controlling shareholder were approximately HK\$115.0 million, approximately HK\$16.8 million, approximately HK\$41.4 million and nil, respectively (30 June 2021: approximately HK\$96.6 million, approximately HK\$27.6 million, approximately HK\$189.0 million and approximately HK\$38.6 million, respectively). As at 31 December 2021, the Group's gearing ratio, which is the ratio of total debts to total assets, was approximately 12.4% (30 June 2021: approximately 21.6%).

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 with an aggregate principal amount up to HK\$150,000,000 during the placing period. Details of the placing of the 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 2021, the Group's bonds payable was approximately HK\$16.8 million.

As at 31 December 2021, the Group had total non-current assets of approximately HK\$762.7 million (30 June 2021: approximately HK\$793.2 million), net current assets of approximately HK\$26.5 million (30 June 2021: net current liabilities of approximately HK\$31.3 million) and net assets of approximately HK\$512.4 million (30 June 2021: approximately HK\$249.8 million). The current ratio of the Group, representing the ratio of current assets to current liabilities, was approximately 1.04 as at 31 December 2021 (30 June 2021: approximately 0.96).

During the Period under Review, the Group mainly funded its liquidity by bank and other borrowings, loans from related companies and a controlling shareholder, perpetual bonds, and internal resources. The Group's financial resources are sufficient to support its businesses 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 investment projects, nor any material acquisition or disposal of subsidiaries and joint ventures.

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 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 to the Rules Governing the Listing of Securities on 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 2021.

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 2021, 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 Shareholders and the Company’s 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 make recommendations thereof. The interim results of the Group for the six months ended 31 December 2021 have not been audited but have been reviewed by the Company's external auditor, Deloitte Touche Tohmatsu, and 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 2021/22 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 second half of 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 support in the future. We will keep working closely with our Shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group's development.

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

Hong Kong, 25 February 2022

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.