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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 2022**

#### **FINANCIAL HIGHLIGHTS**

- For the six months ended 31 December 2022 (the “Period under Review”), the Group recorded revenue of approximately HK\$77.8 million, representing a decrease of approximately HK\$509.4 million or 86.8% as compared to the corresponding period last year.
- The film and TV series production and distribution segment recorded revenue of approximately HK\$2.9 million for the Period under Review, representing a decrease of approximately 99.4% as compared to the corresponding period last year. The Group’s proportion of revenue from Mainland China was approximately 55.0%, with Mainland China continuing to be the major source of revenue for the Group.
- The Group recorded a loss attributable to owners of the Company of approximately HK\$16.9 million for the six months ended 31 December 2022, as compared to a profit of approximately HK\$10.6 million for the corresponding period last year. This was primarily due to (i) the impact of the 2019 Novel Coronavirus pandemic (the “COVID-19 Pandemic”) and the restrictions of the relevant quarantine and travelling measures, which led to delays in the productions of the Group’s various TV series and variety shows and the artiste work schedules, resulting in the failure of completion of shooting or delivery of new TV series and variety shows in the period; and (ii) a decrease in revenue from the Group’s artiste management business for the period as compared to the corresponding period last year due to the impact of the COVID-19 Pandemic.
- The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2022.

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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 2022 together with the comparative unaudited figures for the corresponding period in 2021 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 31 December 2022*

		Six months ended	
		31 December	
		2022	2021
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<b>Revenue</b>	3	<b>77,775</b>	587,203
Cost of sales		<b>(41,643)</b>	(494,974)
<b>Gross profit</b>		<b>(36,132)</b>	92,229
Other gains and losses	5	<b>14,500</b>	630
Other income	5	<b>26,559</b>	19,595
Selling and distribution expenses		<b>(37,396)</b>	(34,045)
Administrative expenses		<b>(39,937)</b>	(45,398)
Fair value change on purchased call option		<b>(1,344)</b>	(3,107)
Impairment losses under expected credit loss model, net of reversal		<b>1,828</b>	–
Fair value change on contingent consideration payable		<b>(4,332)</b>	(4,937)
Finance costs	6	<b>(9,341)</b>	(9,725)
<b>(Loss) profit before tax</b>		<b>(13,331)</b>	15,242
Income tax expense	7	<b>(81)</b>	(2,399)
<b>(Loss) profit for the period</b>	8	<b>(13,412)</b>	12,843

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2022</b>	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)
<b>Other comprehensive (expense) income for the period</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange difference arising on translation of foreign operations	<b>(13,540)</b>	6,979
Reclassification of the cumulative gain included in profit or loss upon disposal of foreign operations	<b>(830)</b>	–
	<b>(14,370)</b>	6,979
<b>Total comprehensive (expense) income for the period</b>	<b>(27,782)</b>	19,822
<b>(Loss) profit for the period attributable to:</b>		
– Owners of the Company	<b>(16,885)</b>	10,554
– Non-controlling interests	<b>3,473</b>	2,289
	<b>(13,412)</b>	12,843
<b>Total comprehensive (expense) income for the period attributable to:</b>		
– Owners of the Company	<b>(30,475)</b>	17,533
– Non-controlling interests	<b>2,693</b>	2,289
	<b>(27,782)</b>	19,822
<b>(Loss) earnings per share</b>	<i>10</i>	
Basic (HK cents)	<b>(0.65)</b>	0.41

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

		31 December 2022	30 June 2022
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment		1,612	2,285
Right-of-use assets		90,793	117,388
Goodwill	11	380,357	393,821
Intangible assets		60,119	71,584
Interest in a joint venture		–	155
Rental deposits		16,852	16,274
		549,733	601,507
<b>Current assets</b>			
Film rights and television series production in progress	12	339,728	327,422
Trade and other receivables	13	109,392	152,152
Loan to a related party		390	2,835
Financial assets at fair value through profit or loss		2,824	2,410
Derivative financial assets		2,097	3,576
Restricted bank balances		3,312	3,404
Pledged bank deposits		67,268	67,518
Bank balances and cash		97,348	103,462
		622,359	662,779

		<b>31 December</b>	30 June
		<b>2022</b>	2022
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Current liabilities</b>			
Trade and other payables	<i>14</i>	<b>170,393</b>	201,885
Contract liabilities	<i>14</i>	<b>142,591</b>	155,116
Tax payable		<b>19,464</b>	19,499
Bank and other borrowings	<i>15</i>	<b>130,424</b>	109,101
Loans from related companies	<i>16</i>	<b>9,651</b>	9,993
Bonds payable		<b>1,500</b>	14,258
Amount due to a joint venture		–	424
Lease liabilities		<b>77,749</b>	90,215
		<u><b>551,772</b></u>	<u>600,491</u>
<b>Net current assets</b>		<u><b>70,587</b></u>	<u>62,288</u>
<b>Total assets less current liabilities</b>		<u><b>620,320</b></u>	<u>663,795</u>
<b>Non-current liabilities</b>			
Loans from related companies	<i>16</i>	<b>56,596</b>	30,677
Contingent consideration payable		<b>127,432</b>	127,509
Deferred tax liabilities		<b>15,030</b>	17,896
Lease liabilities		<b>50,017</b>	88,686
		<u><b>249,075</b></u>	<u>264,768</u>
<b>Net assets</b>		<u><b>371,245</b></u>	<u>399,027</u>
<b>Capital and reserves</b>			
Share capital	<i>17</i>	<b>6,489</b>	6,489
Reserves		<u><b>(158,649)</b></u>	<u>(128,174)</u>
<b>Deficit in shareholders' equity</b>		<b>(152,160)</b>	(121,685)
<b>Perpetual bonds</b>		<b>464,612</b>	464,612
<b>Non-controlling interests</b>		<u><b>58,793</b></u>	<u>56,100</u>
<b>Total equity</b>		<u><b>371,245</b></u>	<u>399,027</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2022

	Attributable to owners of the Company					Sub-total HK\$'000	Perpetual bonds HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000				
			(Note i)						
At 1 July 2021	6,489	521,046	11,848	24,675	(573,593)	(9,535)	204,600	54,743	249,808
Profit for the period	-	-	-	-	10,554	10,554	-	2,289	12,843
Exchange difference arising on translation of foreign operations	-	-	-	6,979	-	6,979	-	-	6,979
Total comprehensive income for the period	-	-	-	6,979	10,554	17,533	-	2,289	19,822
Issuance of perpetual bonds (Note i)	-	-	(9,267)	-	-	(9,267)	252,012	-	242,745
At 31 December 2021 (unaudited)	6,489	521,046	2,581	31,654	(563,039)	(1,269)	456,612	57,032	512,375
At 1 July 2022	6,489	521,046	2,581	13,958	(665,759)	(121,685)	464,612	56,100	399,027
(Loss) profit for the period	-	-	-	-	(16,885)	(16,885)	-	3,473	(13,412)
Exchange difference arising on translation of foreign operations	-	-	-	(12,760)	-	(12,760)	-	(780)	(13,540)
Reclassification of the cumulative gain included in profit or loss upon disposal of foreign operations	-	-	-	(830)	-	(830)	-	-	(830)
Total comprehensive (expense) income for the period	-	-	-	(13,590)	(16,885)	(30,475)	-	2,693	(27,782)
At 31 December 2022 (unaudited)	6,489	521,046	2,581	368	(682,644)	(152,160)	464,612	58,793	371,245

*Note:*

- (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. The difference amounting to HK\$9,267,000 between the fair value of perpetual bonds issued of HK\$252,012,000 and the carrying amounts of loans derecognised of HK\$242,745,000 was recognised against the above deemed contribution from the controlling shareholder.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2022

## 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.

## 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 30 June 2022.

### 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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 3. REVENUE

#### Disaggregation of revenue from contracts with customers

	Six months ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Film and television (“TV”) series production and distribution income	2,855	502,244
Film exhibition income	35,012	19,030
Pan entertainment income	39,908	65,929
	<hr/>	<hr/>
Total	77,775	587,203
	<hr/>	<hr/>
<b>Timing of revenue recognition</b>		
At a point in time	64,264	500,031
Over time	13,511	87,172
	<hr/>	<hr/>
Total	77,775	587,203
	<hr/>	<hr/>

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 and distribution*

- 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 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 been 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 and distribution, film exhibition and pan entertainment 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 and distribution
- (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 (loss) profit 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, fair value change on purchased call option and gain on disposal of subsidiaries. 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 segments.

*For the six months ended 31 December 2022*

	Film and TV series production, and distribution <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>2,855</u>	<u>35,012</u>	<u>39,908</u>	<u>77,775</u>
Segment (loss) profit	<u>(23,110)</u>	<u>(823)</u>	<u>9,417</u>	<u>(14,516)</u>
Head office and corporate expenses				(5,694)
Fair value change on contingent consideration payable				(4,332)
Unallocated finance costs				(1,625)
Fair value change on purchased call option				(1,344)
Gain on disposal of subsidiaries				<u>14,180</u>
Loss before tax				<u>(13,331)</u>

*For the six months ended 31 December 2021*

	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
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>

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 and distribution income, film exhibition income, pan entertainment income and others is derived from is as below:

	Six months ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>35,012</b>	19,030
Mainland, the People's Republic of China (the "PRC")	<b>42,763</b>	568,173
	<b><u>77,775</u></b>	<b><u>587,203</u></b>

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

	31 December	30 June
	2022	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland, the PRC	<b>448,492</b>	473,924
Hong Kong	<b>84,389</b>	111,309
	<b><u>532,881</u></b>	<b><u>585,233</u></b>

## 5. OTHER GAINS AND LOSSES AND OTHER INCOME

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
<b>Other gains and losses</b>		
Gain on disposal of subsidiaries ( <i>note 19</i> )	<b>14,180</b>	–
Gain on disposal of property, plant and equipment	<b>2</b>	–
Loss on disposal of right-of-use assets	<b>(39)</b>	–
Gains on modification of financial liabilities	<b>1,614</b>	–
Net foreign exchange (loss) gain	<b>(1,257)</b>	630
	<b>14,500</b>	630
<b>Other income</b>		
Cinema operation right income ( <i>note ii</i> )	<b>18,676</b>	7,722
Handling service income	<b>833</b>	592
Interest income	<b>353</b>	350
Government subsidy received ( <i>note i</i> )	<b>1,917</b>	2,523
Cinema promotion income	<b>1,931</b>	3,286
Coupon sales income from film producers	<b>201</b>	439
Others	<b>2,648</b>	4,683
	<b>26,559</b>	19,595

### *Notes:*

- 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.
- ii. Cinema operation right income represents income arising from a management agreement between Cinema City (Langham Place) Limited (“CCLP”), a subsidiary of the Company, and Mandarin Motion Pictures Limited, a connected party controlled by a director of CCLP, in relation to operation of the cinema of CCLP for the period from the date of 26 May 2021 to 25 May 2024.

## 6. FINANCE COSTS

	Six months ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Loans from related companies	1,351	983
Lease liabilities	4,323	3,333
Bank and other borrowings	3,393	4,776
Bonds payable	274	633
	<u>9,341</u>	<u>9,725</u>

## 7. INCOME TAX EXPENSE

	Six months ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax: PRC Enterprise Income Tax (“EIT”)	2,316	4,594
Deferred tax	<u>(2,235)</u>	<u>(2,195)</u>
Income tax expense	<u>81</u>	<u>2,399</u>

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the 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 statutory tax rate of the PRC subsidiaries is 25% for both periods.

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 subsidiary of the Group 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, one 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. As stipulated in Xin Zheng Fa [2012] No. [48]《關於加快喀什、霍爾果斯經濟開發區建設的實施意見》(Implementation Advice on Accelerating the Construction of Kashgar and Khorgas Special Economic Areas\*), both subsidiaries mentioned above could enjoy exemption of EIT charged by local tax bureau, which takes account for 40% of the total EIT, for five years starting from the end of the previous exemption.

## 8. (LOSS) PROFIT FOR THE PERIOD

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
(Loss) profit for the period has been arrived at after charging:		
Directors' emoluments	<b>1,907</b>	2,048
Other staff costs	<b>14,023</b>	19,502
Retirement benefit scheme contributions, excluding those of the directors	<b>1,864</b>	1,588
	<hr/>	<hr/>
Total staff costs	<b>17,794</b>	23,138
Auditors' remuneration	<b>1,120</b>	1,275
Depreciation of property, plant and equipment	<b>335</b>	226
Depreciation of right-of-use assets	<b>27,595</b>	17,074
Amortisation of intangible assets	<b>8,938</b>	8,778
Cost of television series production	–	407,264
Short-term lease expenses for premises	<b>450</b>	1,053
Cost of scriptwriters for television series production	<b>10,593</b>	14,721
Cost of services provided for television series production	<b>379</b>	14,371
Cost of services provided for film exhibition	<b>15,980</b>	10,295
Cost of artiste and internet celebrity agency business	<b>14,691</b>	48,089
Cost of inventories sold	–	234
	<hr/>	<hr/>

## 9. DIVIDEND

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

\* For identification only



## 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 and pre-tax discount rate of 27.37% (30 June 2022: 24.94%) per annum as at 31 December 2022. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 2.0% (30 June 2022: 2.0%) 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 Wenlan's past performance and management's expectations for the market development.

The carrying amount of goodwill as at 31 December 2022 allocated to Khorgas Group and Wenlan are HK\$362,432,000 (30 June 2022: HK\$375,262,000) and HK\$17,925,000 (30 June 2022: HK\$18,559,000), respectively.

## 12. FILM RIGHTS AND TELEVISION SERIES PRODUCTION IN PROGRESS

	<b>Film rights</b> <i>HK\$'000</i>	<b>Television series production in progress</b> <i>HK\$'000</i>
<b>COST</b>		
At 1 July 2021	776,062	558,655
Additions	–	249,918
Transfer upon completion and sold	–	(438,686)
Disposal	–	(3,556)
Exchange adjustments	–	966
	<hr/>	<hr/>
At 30 June 2022	776,062	367,297
Additions	–	23,534
Exchange adjustments	–	(11,228)
	<hr/>	<hr/>
At 31 December 2022	776,062	379,603
	<hr/>	<hr/>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>		
At 1 July 2021, 30 June 2022 and 31 December 2022	776,062	39,875
	<hr/>	<hr/>
<b>CARRYING AMOUNTS</b>		
At 31 December 2022 (unaudited)	–	339,728
	<hr/>	<hr/>
At 30 June 2022 (audited)	–	327,422
	<hr/>	<hr/>

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

### 13. TRADE AND OTHER RECEIVABLES

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables	<b>58,971</b>	91,269
Less: Allowance for expected credit losses	<b>(1,574)</b>	(3,304)
	<b>57,397</b>	87,965
Other receivables, deposits and prepayments	<b>3,248</b>	6,308
Other receivable from TV series	<b>23,177</b>	24,177
Less: Allowance for expected credit losses	<b>(550)</b>	(648)
	<b>25,875</b>	29,837
Investment in film and TV series producers at FVTPL ( <i>note i</i> )	<b>11,672</b>	11,909
Prepayment for artiste management agency and scriptwriters	<b>10,170</b>	16,380
Other deposits and prepayments for cinema operation	<b>200</b>	397
Other tax recoverable	<b>4,078</b>	5,664
	<b>109,392</b>	152,152

*Note i:* The amounts represented the Group's entitlement to return on certain film and TV series producers invested by the Group which are variable based on contracts.

The aging analysis of the Group's trade receivables, net of allowance for credit losses, based on the invoice date at the end of the reporting period is as follows:

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables:		
0 – 30 days	<b>8,238</b>	16,289
31 – 60 days	<b>3,546</b>	–
61 – 90 days	<b>1,484</b>	176
91 – 180 days	<b>3,554</b>	48,865
181 – 365 days	<b>40,377</b>	22,489
Over one year	<b>198</b>	146
	<b>57,397</b>	87,965

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 fee from distributors in Hong Kong and PRC Mainland 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 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$44,129,000 (30 June 2022: HK\$71,500,000) which are past due as at the reporting date. Out of the past due balances, HK\$40,575,000 (30 June 2022: HK\$22,635,000) 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

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	<b>46,842</b>	64,146
Other payables and accruals	<b>60,355</b>	88,731
Advances from former shareholder of subsidiaries acquired ( <i>note ii</i> )	<b>36,024</b>	37,300
Deposits received ( <i>note i</i> )	<b>9,084</b>	–
Accrued services fee for TV series production ( <i>note iii</i> )	<b>11,308</b>	11,708
Investment funds investors at FVTPL ( <i>note iv</i> )	<b>6,780</b>	–
	<b><u>170,393</u></b>	<b><u>201,885</u></b>
Contract liabilities ( <i>note v</i> )	<b><u>142,591</u></b>	<b><u>155,116</u></b>

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 the aging analysis of the Group's trade payables at the end of the reporting period:

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days	<b>18,367</b>	28,874
Within 61 to 90 days	<b>52</b>	1,625
Within 91 to 365 days	<b>10,800</b>	27,070
Over 365 days	<b>17,623</b>	6,577
	<b><u>46,842</u></b>	<b><u>64,146</u></b>

*Notes:*

- (i) 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.
- (ii) Advances from former shareholder of subsidiaries acquired are non-trade related, unsecured, interest-free and repayable on demand.
- (iii) The amounts represented the accrued services fee payable to scriptwriters of TV series production.
- (iv) Investment funds from investors represent investors' entitlement to the return on film invested by the Group and the return are variable based on contracts with other investors.
- (v) Deposits are received by the Group as the instalments of the PRC TV series production in progress and advances of distribution income received from distributors prior to release and delivery of 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**

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Bank borrowings:		
Fixed-rate and secured ( <i>note i</i> )	<b>45,200</b>	29,238
Fixed-rate and guaranteed ( <i>note ii</i> )	<b>20,340</b>	15,120
Variable-rate and secured ( <i>note iii</i> )	<b>35,030</b>	33,930
Variable-rate and guaranteed	<b>5,650</b>	5,850
	<b>106,220</b>	84,228
Other borrowings ( <i>note iv</i> )	<b>24,204</b>	24,873
	<b>130,424</b>	109,101

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

	<b>31 December</b>	30 June
	<b>2022</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount repayable (based on scheduled repayment terms):		
Within one year or on demand	<b>130,424</b>	109,101
Less: Amounts due shown under current liabilities:		
On demand or due within one year	<u>(130,424)</u>	<u>(109,101)</u>
Amounts due after one year	<u>          -</u>	<u>          -</u>

*Notes:*

- (i) During the six months ended 31 December 2022, the Group obtained new fixed rate and secured bank borrowings amounting to HK\$33,911,000 (six months ended 31 December 2021: nil) and repaid bank borrowings of HK\$16,950,000 (six months ended 31 December 2021: nil). The bank borrowings are secured by bank deposits of HK\$22,600,000 (30 June 2022: HK\$26,850,000), trade receivables amounting to approximately HK\$41,810,000 (30 June 2022:nil) and guaranteed by two directors of the Company.
- (ii) During the six months ended 31 December 2022, the Group obtained new fixed rate and guaranteed bank borrowings amounting to HK\$16,950,000 (six months ended 31 December 2021: nil) and repaid bank borrowings of HK\$11,300,000 (six months ended 31 December 2021: HK\$12,200,000). The amount of RMB8,000,000 (equivalent to HK\$9,040,000) (30 June 2022:RMB3,000,000 (equivalent to HK\$3,510,000)) bank borrowing is guaranteed by an insurance company in the PRC as at 31 December 2022. The amount of RMB10,000,000 (equivalent to HK\$11,300,000) (30 June 2022: nil) bank borrowing is guaranteed by an insurance company in the PRC, a director of the Company and two subsidiaries of the Group as at 31 December 2022.
- (iii) During the six months ended 31 December 2022, the Group obtained new variable-rate and secured bank borrowings amounting to approximately RMB15,000,000 (equivalent to HK\$16,950,000) (six months ended 31 December 2021: HK\$35,380,000), and repaid bank borrowings of RMB13,000,000 (equivalent to HK\$14,690,000) (six months ended 31 December 2021: nil). 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\$44,000,000 (30 June 2022: HK\$40,000,000) as at 31 December 2022.
- (iv) Other borrowings represented a loan from a third party company, bearing interest at 15% per annum. The maturity date of the loan was extended to 31 December 2023 during the current period. The loan is secured by the Group's trade receivables amounting to RMB557,000 (equivalent to HK\$629,000) (30 June 2022: RMB16,731,000 (equivalent to HK\$19,575,000)) as at 31 December 2022.

## 16. LOANS FROM RELATED COMPANIES

	<b>31 December 2022 HK\$'000</b>	30 June 2022 HK\$'000
Loans from related companies		
– Loan 1 ( <i>note i</i> )	<b>29,588</b>	30,677
– Loan 2 ( <i>note ii</i> )	<b>9,651</b>	9,993
– Loan 3 ( <i>note iii</i> )	<b>27,008</b>	–
	<b>66,247</b>	40,670
Analysed as:		
Current liabilities	<b>9,651</b>	9,993
Non-current liabilities	<b>56,596</b>	30,677
	<b>66,247</b>	40,670

### Notes:

- (i) The balance represents that Khorgas Houhai Culture Media Company Limited, a wholly owned subsidiary of the Company, borrowed a loan of RMB23,000,000 (equivalent to HK\$25,990,000) (30 June 2022: RMB23,000,000 (equivalent to HK\$26,910,000)) plus accrued interest of RMB4,025,000 (equivalent to HK\$4,548,000) (30 June 2022: RMB3,220,000 (equivalent to HK\$3,767,000)) from Guangzhou Puji as at 31 December 2022. The loan advance is unsecured, interest-bearing at 7.00% per annum. During the six months ended 31 December 2022, the maturity date of the loan was extended to July 2025.
- (ii) The balance represents interest payables of RMB8,541,000 (equivalent to HK\$9,651,000) (30 June 2022: RMB8,541,000 (equivalent to HK\$9,993,000)) as at 31 December 2022.
- (iii) The balance represents loan of RMB10,500,000 (equivalent to HK\$11,865,000) (30 June 2022: nil) and loan of RMB13,000,000 (equivalent to HK\$14,690,000) (30 June 2022: nil) plus accrued interest of RMB228,000 (equivalent to HK\$258,000) (30 June 2022: nil) and RMB173,000 (equivalent to HK\$195,000) (30 June 2022: nil) from Guangzhou Puji as at 31 December 2022. The loan advances are unsecured, interest-bearing at 4.50% per annum and repayable in July 2024 and September 2024 respectively.

## 17. SHARE CAPITAL

	Number of Shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.0025 each:		
<b>Authorised:</b>		
At 1 July 2021, 30 June 2022 (audited) and 31 December 2022 (unaudited)	<u>32,000,000,000</u>	<u>80,000</u>
<b>Issued and fully paid:</b>		
At 1 July 2021, 30 June 2022 (audited) and 31 December 2022 (unaudited)	<u>2,595,613,733</u>	<u>6,489</u>

## 18. RELATED PARTY TRANSACTIONS AND MAJOR 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 transactions with related parties:

Name of related party	Notes	Nature of transaction	Six months ended 31 December	
			2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Guangzhou Puji	(a)	Interest expenses	1,351	983
Skynova International Limited (“Skynova”)	(b)	Interest income	<u>135</u>	<u>135</u>

Notes:

- (a) The amounts represented the interest expenses for the loan advances to the Group from Guangzhou Puji.
- (b) The interest income was received from Skynova for the loan provides to Skynova which are beneficially owned by Mr. Zhang.

**(II) Compensation of key management personnel**

The remuneration of directors and other key management personnel of the Group during the period was as follows:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Salaries and other allowances	<b>4,401</b>	5,310
Retirement benefit scheme contributions	<b>352</b>	370
	<b>4,753</b>	<b>5,680</b>

The remuneration of directors and other key management personnel is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

**(III) Major non-cash transaction**

During the six months ended 31 December 2022, the Group entered into a new lease agreement for the use of a leased property for 5 years.

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 and Guangzhou Puji, companies in which Mr. Zhang has controlling interests, 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.

## 19. DISPOSAL OF SUBSIDIARIES

On 28 December 2022, Green Riches Holdings 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 who is a connected person of the Company at the subsidiary level, to dispose of the entire equity interest in Pegasus Motion Pictures (Hong Kong) Limited, Pegasus Motion Pictures Distribution Limited and Pegasus Motion Pictures Production Limited, at a cash consideration of HK\$84,000. The disposed entities are mainly engaged in movie investment and film distribution. The disposal was completed on 31 December 2022, on which date when the control of disposed entities passed to the acquirer.

### Consideration received:

	<i>HK\$'000</i>
Consideration receivable	<u>84</u>

### Analysis of assets and liabilities over which control was lost:

	<i>HK\$'000</i>
Property, plant and equipment	5
Interest in a joint venture	155
Trade and other receivables	1,700
Bank balances and cash	2,009
Trade and other payables	(16,417)
Amount due to a joint venture	(424)
Tax payable	<u>(294)</u>
Net liabilities disposed of	<u>(13,266)</u>

### Gain on disposal of subsidiaries:

	<i>HK\$'000</i>
Consideration receivable	84
Reclassification of the cumulative gain upon disposal of foreign operations	830
Less: net liabilities disposed of	<u>13,266</u>
Gain on disposal ( <i>note 5</i> )	<u>14,180</u>

### Net cash outflow arising on disposal:

	<i>HK\$'000</i>
Cash received	–
Cash and cash equivalents disposed of	<u>(2,009)</u>
	<u>(2,009)</u>

## **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 produces Chinese films, variety shows and TV series in both Mainland China and Hong Kong as its main markets and currently operates one Hong Kong based cinema. For the six months ended 31 December 2022 (the “Period under Review”), the Group continued to focus on producing quality film and TV series content and advancing its development strategy of brand diversification. The Group’s proportion of revenue from Mainland China was approximately 55.0%, with Mainland China continuing to be the major source of revenue for the Group.

### **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 shows, 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\$2.9 million, primarily contributed by the income from scriptwriter business.

### **Film Exhibition**

The film exhibition revenue of the Group during the Period under Review increased by approximately 84.0% as compared to the corresponding period last year to approximately HK\$35.0 million, representing approximately 45.0% of the total revenue of the Group, mainly benefited by the gradual relaxation of the Hong Kong Government’s measures to shut down cinemas.

## **Pan entertainment and other business**

The Group continued to improve its industry chain and broaden its revenue base, and its artistes and internet celebrities continued to be more influential in market segments. During the Period under Review, the Group's artistes starred in many TV series and movies, and participated in many endorsement activities. Among which, Yang Chaoyue starred in the costume martial arts web series "Heroes" (說英雄誰是英雄), the situation comedy "Sisterhood" (家有姐妹), the eighth season of the large variety show "Go Fighting" (極限挑戰), the reality show "On Air! Sitcom" (開播！情景喜劇), etc.

During the Period under Review, the Group's pan entertainment and other businesses recorded revenue of approximately HK\$39.9 million in total, representing a decrease of approximately 39.5% as compared to approximately HK\$65.9 million for the corresponding period last year. This business segment recorded a segment profit of approximately HK\$9.4 million during the Period under Review (six months ended 31 December 2021: loss of approximately HK\$11.3 million).

In addition, the Group had disposed the entire equity interests in certain subsidiaries which are principally engaged in movie investment and film distribution, in order to reallocate more financial resources to other businesses with higher development potential, thereby generating more returns for the shareholders of the Company (the "Shareholders"). The disposal was completed on 31 December 2022, generating a disposal gain of approximately HK\$14.2 million. The management believes that the above strategies and measures will have a positive impact on the results and financial performance of the Group in the future.

## 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 its strategic deployment of fusing its 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 TV and movie entertainment consumption 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 a costume romantic mystery drama “Holding my Koi Husband” (抱住錦鯉相公). 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 fourth season of “I Love You, Me Too” (喜歡你，我也是) and the third season of “The Detectives’ Adventures” (萌探探探案). In addition, the Group will develop and produce films and TV series on a number of popular copyrighted works of fiction including “The Ideal City 2” (理想之城2), “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), “Locard’s Theory” (洛卡爾定律), etc.

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 Shareholders.

## **FINANCIAL REVIEW**

### **Revenue and gross profit**

Revenue of the Group during the Period under Review amounted to approximately HK\$77.8 million, representing a decrease of approximately HK\$509.4 million or approximately 86.8% as compared to the corresponding period last year, mainly contributed by the revenue from the pan entertainment and other segments and the film exhibition segment of approximately HK\$39.9 million and HK\$35.0 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 the income from scriptwriter business. For the film exhibition segment, the film exhibition revenue of the Group during the Period under Review increased by approximately 84.0% as compared to the corresponding period last year to approximately HK\$35.0 million, representing approximately 45.0% of the total revenue of the Group, mainly due to the gradual relaxation of the Hong Kong Government's measures to shut down cinemas. For the pan entertainment and other segments, the Group recorded a revenue of approximately HK\$39.9 million mainly derived from artiste management services during the Period under Review, representing a decrease of approximately 39.5% as compared to the corresponding period last year.

Gross profit of the Group was approximately HK\$36.1 million, representing a decrease of approximately HK\$56.1 million or approximately 60.8% as compared to the corresponding period last year. Gross profit margin for the Period under Review was approximately 46.5%, representing an increase of approximately 30.8 percentage points from approximately 15.7% for the corresponding period last year, mainly due to the Group's increased proportion of revenue from film exhibition and the gross profit margin of the film exhibition business being higher than other businesses.

### **Other gains and losses and other income**

During the Period under Review, other gains and losses and other income amounted to approximately HK\$41.1 million, representing an increase of approximately HK\$20.8 million or approximately 103% as compared to the corresponding period last year, mainly due to a gain on disposal of certain subsidiaries recorded during the Period under Review.

### **Selling and distribution expenses**

Selling and distribution expenses increased by approximately HK\$3.4 million or approximately 9.8% from approximately HK\$34.0 million for the corresponding period last year to approximately HK\$37.4 million for the Period under Review, mainly due to the increase in income from film exhibition resulting in the increase in the relevant selling and distribution expenses.

### **Administrative expenses**

Administrative expenses decreased by approximately HK\$5.5 million or approximately 12.0% from approximately HK\$45.4 million for the corresponding period last year to approximately HK\$39.9 million for the Period under Review, which was primarily benefited by the effective internal cost control measures.

### **Loss for the Period under Review**

During the Period under Review, the Group's loss and total comprehensive expenses attributable to the owners of the Company were approximately HK\$16.9 million (six months ended 31 December 2021: profit of approximately HK\$10.6 million) and approximately HK\$30.5 million (31 December 2021: total comprehensive income of approximately HK\$17.5 million), respectively.

This was primarily due to (i) the impact of the COVID-19 Pandemic and the restrictions of the relevant quarantine and travelling measures, which led to delays in the productions of the Group's various TV series and variety shows and the artiste work schedules, resulting in the failure of completion of shooting or delivery of new TV series and variety shows in the period; and (ii) a decrease in revenue from the Group's artiste management business for the period as compared to the corresponding period last year due to the impact of the COVID-19 Pandemic.

## **IMPAIRMENT LOSS ON GOODWILL (THE “IMPAIRMENT”)**

### **Background**

As disclosed in Note 11 to the condensed consolidated financial statements in this announcement, goodwill has been allocated to the CGUs of the Khorgas Group and Wenlan. The carrying amounts of goodwill (before impairment loss) allocated to the CGUs of the Khorgas Group and Wenlan amounted to approximately HK\$419.0 million and HK\$42.4 million, respectively as at 30 June 2022.

The Impairment of the Khorgas Group and Wenlan amounting to approximately HK\$43.7 million and HK\$23.9 million, respectively, was made for the year ended 30 June 2022, 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 2022. No impairment was made for the Period under Review.

The Khorgas Group was engaged in film and TV series production, distribution and licensing business whereas Wenlan was engaged in artiste management business. The management assessed the revenue, gross profit margin and net profit margin to be generated therefrom after taking into account the factors explained in the section headed “Circumstances leading to the Impairment” below.

### **Circumstances leading to the Impairment**

For the year ended 30 June 2022, the management of the Company assessed the carrying value and recoverable amount of the CGUs and goodwill allocated to the CGUs after taking into account the following factors:

- (a) the ongoing implementation of restrictive COVID-19 measures in the PRC, including city-wide lockdowns in Shanghai and certain other cities, compulsory COVID-19 testing, social distancing and isolation rules, work-from-home arrangement, mandatory closures of movie theatres and certain non-essential venues and so on in relation to the COVID-19 outbreaks since the first quarter of 2020;
- (b) the adverse impact of COVID-19 Pandemic on the film and TV industry and the consumption atmosphere in the PRC leading to the slowdowns and postponements in shooting of movies and TV series, which had significant adverse impact on the progress and original schedules of the film and TV productions as well as the artistes’ work schedules;

- (c) the adverse impact of COVID-19 Pandemic on the financial performance of the peers in the media and entertainment industry and certain online streaming platforms, and further cost control measures are expected to be taken by industry participants;
- (d) the implementation of certain government restrictive rules and regulations such as imposing a cap on the salaries of actors and actresses, a cap on the maximum number of episodes of each TV drama, etc.;
- (e) the review and comparison of the budgets of the Khorgas Group and Wenlan prepared for the year and the actual revenue and profit generated from the Khorgas Group and Wenlan during the year, from which a shortfall from the projected revenue and operating profit was found, preliminarily due to the impact of COVID-19 Pandemic which had resulted in unexpected interruptions in films and TV productions and artistes' work schedules as stated above; and
- (f) the need to adopt a reasonable approach in evaluating the cashflow to be generated from the Khorgas Group and Wenlan by the adoption of a pre-tax discount rate of 25.0% and 24.9% respectively for the year ended 30 June 2022 with reference to the use of weighted average costs of capital when the recoverable amount was determined based on value in use calculations.

The above factors were identified close to the end of the year ended 30 June 2022 and were assessed and considered during the course of the preparation of the annual financial information of the Khorgas Group and Wenlan for the year ended 30 June 2022.

**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 CGUs 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 CGUs. Therefore, the Company adopted the DCF.

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

- (a) the Group recognised the impairment loss on goodwill due to the deteriorating economic environment brought by the COVID-19 Pandemic in the film and TV series productions, licensing and distribution business as well as artiste management sector;
- (b) the economic downturn and the negative impact of COVID-19 Pandemic will be a mid- to long-term issue and the financial performance of online streaming platforms and occupancy rate of the cinemas will not expectably rebound in a short period taking into account the challenging global and the PRC economic environment and declining financial performance of the industry peers as well as the uncertainties brought by the COVID-19 Pandemic;
- (c) the interest rate of the banking facilities obtained by the Group for the operation of the Khorgas Group and Wenlan 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 the management. The cash flow projection of the Khorgas Group was based on financial budgets approved by the management of the Company covering a five-year period and a pre-tax discount rate of 25.0% for the year ended 30 June 2022. The Group's management estimated that the Khorgas Group's revenue from films and TV series would be recognised and received in the later years of forecast periods after taking into consideration the factors stated in "Circumstances leading to the Impairment" as compared to the previous years' financial budgets. The impairment was primarily due to the postponement in shootings, post productions and release dates of certain films and TV dramas to the later years of the forecast periods, although these films and TV dramas were originally planned to complete in the earlier years of the forecast periods. The key assumption includes the future expected cash flows based on management's view of future business prospects and historical performance of the Khorgas Group.

In addition, the cash flow projection of Wenlan was based on financial budgets approved by the management of the Company covering a five-year period and a pre-tax discount rate of 24.9% for the year ended 30 June 2022. The Group's management estimated that Wenlan's revenue from artiste management business would drop during the forecast periods after taking into consideration the factors stated in "Circumstances leading to the Impairment" as compared to the previous years' financial budgets. Management prudently predicted that there would be no significant revenue growth in the forecast period. The key assumption includes the future expected cash flows based on management's view of future business prospects and historical performance of Wenlan.

Taking into account the above factors and the reasonable approach of 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. Under the current challenging environment of film and TV productions, distribution and licensing business and artiste management business brought by the COVID-19 Pandemic, the Group's management will closely monitor the market situations and adjust business strategy timely.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31 December 2022, the Group's bank balances and cash amounted to approximately HK\$97.3 million (30 June 2022: approximately HK\$103.5 million), which are denominated mainly in Hong Kong Dollar ("HK\$"), United States Dollar ("US\$") and Renminbi ("RMB").

As at 31 December 2022, the Group's total debts, comprising bank and other borrowings, bonds payable and loans from related companies were approximately HK\$130.4 million, approximately HK\$1.5 million and approximately HK\$66.2 million, respectively (30 June 2022: approximately HK\$109.1 million, approximately HK\$14.3 million and approximately HK\$40.7 million, respectively). As at 31 December 2022, the Group's gearing ratio, which is the ratio of total debts to total assets, was approximately 16.9% (30 June 2022: approximately 13.0%).

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 Company dated 16 May 2019, 16 September 2019, 24 February 2020 and 21 August 2020 respectively. As at 31 December 2022, the Group's bonds payable was approximately HK\$1.5 million (30 June 2022: approximately HK\$14.3 million).

As at 31 December 2022, the Group had total non-current assets of approximately HK\$549.7 million (30 June 2022: approximately HK\$601.5 million), net current assets of approximately HK\$70.6 million (30 June 2022: net current assets of approximately HK\$62.3 million) and net assets of approximately HK\$371.2 million (30 June 2022: approximately HK\$399.0 million). The current ratio of the Group, representing the ratio of current assets to current liabilities, was approximately 1.13 as at 31 December 2022 (30 June 2022: approximately 1.10).

During the Period under Review, the Group mainly funded its liquidity by bank and other borrowings, loans from related companies, 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 save for the disposal of certain subsidiaries as disclosed in Note 19 to the condensed consolidated financial statements in this announcement.

## **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 2022.

## **EVENTS AFTER REPORTING PERIOD**

There was no material event subsequent to the end of the reporting period.

## **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 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 2022.

## **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 2022, it complied with and did not deviate from the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Part 2 of Appendix 14 to the Listing Rules.

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

## **AUDIT COMMITTEE**

The audit committee of the Company (the “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 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 2022 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](http://www.transmit-ent.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report 2022/23 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 2022. 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 and Executive Director*

Hong Kong, 24 February 2023

*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.*