TRANSMIT ENTERTAINMENT

Transmit Entertainment Limited

傳 遞 娛 樂 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

SUPPLEMENTAL ANNOUNCEMENT REGARDING ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

Reference is made to the announcement (the "**Announcement**") of Transmit Entertainment Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 21 September 2018 in relation to the annual results of the Group for the year ended 30 June 2018 and the annual report of the Company published on 18 October 2018 (the "**Annual Report**"). Terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise.

The Company would like to provide the following supplementary information in relation to the Announcement and the Annual Report:

(I) IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT (THE "PPE IMPAIRMENT")

Background of the PPE Impairment

The PPE Impairment are impairment made on the equipment and facilities of 4 cinemas operating by the Group (the "**Cinemas**"), among which one is located in Mongkok, one is located in Tsuen Wan and two are located in Causeway Bay, which was determined after considering the difference between the recoverable amount of the property, plant and equipment determined based on value in use calculations and the carrying value thereof during the financial year ended 30 June 2018. For the Cinema located at Mongkok, it has been operating for years and the management assessed the income to be generated therefrom by comparing the performance of such Cinema of year 2018 with the previous financial year, after taking into account of the factors explained in the section headed "Circumstances leading to the PPE Impairment" below; for the Cinemas located at Tsuen Wan and Causeway Bay, they were newly developed (the Cinemas located at Tsuen Wan, Causeway Bay (JP Plaza and Victoria) were planned and started to be established in July 2016, April 2017 and August 2016 respectively) and only commenced operation in the financial year 2018, and the management assessed the income to be generated from the operation thereof based on the estimation of financial performance taking into account the factors as explained in the section headed "Circumstances leading to the PPE Impairment" below. As the plans and establishment work commenced back in 2016 and 2017 when the economic environment and movie exhibition market were satisfactory, and it is not reasonable and practical for the Company to abandon the development in light of the sharp turn of market performance and prospect since mid-2018 as investment in the development of the Cinemas have been made, the establishment of the relevant new Cinemas were completed and commenced operation in the financial year ended 30 June 2018.

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 plant and equipment in relation to the Cinemas were acquired at various time and relevant suppliers in the course of the establishment of the Cinemas.

Circumstances leading to the PPE Impairment

At the end of the financial year ended 30 June 2018, the management of the Company assessed the carrying value and recoverable amount of the property, plant and equipment in relation to the Cinemas after taking into account of the following factors:

(a) the economic downturn since mid-2018 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 high operating costs including rentals payable for the relevant Cinema premises which are located in the prime areas of various districts, namely, Mongkok, Tsuen Wan, and Causeway Bay;

(d) the review and comparison of the budget of the Cinemas prepared in 2017 for the financial year ended 30 June 2018 and the actual income and profit generated from the Cinemas during the year, and found that there is a material shortfall from the projected income and operating profit;

(e) the need to adopt a reasonable approach in evaluating the cashflow to be generated from the operation with those property, plant and equipment by the adoption of a discount rate of 13.5% with reference to the use of weighted average costs of capital when the recoverable amount of property, plant and equipment was determined based on value in use calculations.

The above factors were identified close to the year end of 30 June 2018 and assessed and considered during the course of the preparation of the annual financial information of the Company for the year ended 30 June 2018. 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 PPE Impairment and the recoverable amount of the property, plant and equipment

The PPE Impairment relied on the assessment based on discount cashflow method ("**DCF**"). DCF is adopted because:

(a) The entire carrying amount of the property, plant and equipment was tested for impairment in accordance with the Hong Kong Accounting Standard 36 "Impairment of Assets" (the "**HKAS 36**") issued by the Hong Kong Institute of Certified Public Accountants 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, DCF but not asset-based approach and market based approach was used.

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

(a) the Group recognized the impairment loss on property, plant 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 Cinemas and the box office will not rebound in a short period taking into account the declining economic performance of Hong Kong and the PRC and the uncertainties brought by the increase of lending interest rate and the trade war between the United States of America and the PRC;

(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;

(d) for the impairment testing, the recoverable amount of the property, plant and equipment 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 13.50%. The key assumption include the future expected cash flows based on management's view of future business prospects and past performance of the Group.

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

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

(II) IMPAIRMENT LOSS ON INVESTMENT IN FILM/DRAMA PRODUCTION (THE "FILM IMPAIRMENT")

Background of the Film Impairment

On 28 January 2013, the Group entered into the agreement with TNC Productions Limited (now known as Inversion Productions Limited) ("**Inversion**") in relation to an investment of US$2,500,000 in the film titled "Inversion" (the "**Film**") which is to be produced for worldwide theatrical distribution. Under the agreement, the investment will be recouped by the Group in full upon the commencement of principal photography of the Film or upon the close of bank financing of the Film. In addition, the Group will be entitled to a return which is based on a pre-determined percentage of the investment upon the theatrical release of the Film in the United States of America then tentatively scheduled in 2014 and a certain percentage of the profit derived from the release of the Film worldwide in any media and in any format. The Film was originally targeted for worldwide theatrical distribution in 2014 under the original agreement.

During the period from September 2013 to July 2018, the Group kept inquired into the status of the production and Inversion informed that due to change in the production plan and delay in fund raising, the principal photography has to be delayed, and the Group and Inversion entered into various supplemental agreements to further extend the date for the commencement of the principal photography of the Film and the latest supplemental agreement was entered into in July 2018 pursuant to which the commencement date was extended to February 2019. In light of the extension of time and as compensation to the Group, the amount of the agreed fully repayment and the agreed pre-determined percentage of the investment upon the theatrical release of the film which the Group were entitled have also been increased from 100% to 116% and from 20% to 48%, respectively. Save for the amendments made and disclosed above, all the other terms and conditions of the agreements remained unchanged and continue in full force and effect.

Circumstances leading to the Film Impairment

The factors, events and circumstances leading to the Film Impairment are as follows:

(a) Since the Group's investment in the Film in 2013, the Film is still in the pre-production stage as at 30 June 2018 and up to August 2018;

(b) Back in April 2018, the Company was informed by Inversion on the change of actress of the Film. The shooting time was postponed and planned to start in August 2018. Although the new actress was less famous than the original candidate, there was no signs of impairment as the shooting time was very close;

(c) In late July 2018, the Company was informed on the further postponement of shooting to February 2019 and a tenth supplemental agreement was signed to amend the schedule;

(d) Compared with the finance summary received in August 2018 and the finance summary provided by Inversion in June 2017, only less than 21% of the targeted fund raising amount was met for the shooting of the Film, while the substantial part of the funds received by Inversion were spent for preparation and preproduction. The management of Inversion does not have further update and comprehensive plan on how to raise the remaining funding. Moreover, the Company was informed by Inversion the director of the Film has also been changed to a less famous one compared with the original candidate. The Directors were then of the view that, together with the change in major production team, it will cast a large uncertainty on the sales of Film as well as the its fund raising ability. In view of low cash balances, huge funds required for shooting and less famous production team, the Directors considered the shooting time for Inversion is uncertain and is unable to meet the latest schedule of February 2019, which leads to the doubt on the collectability of the investment;

(e) As a result, a full impairment loss of approximately HK$19.61 million was considered necessary and was recognised during the year.

The factors, events and circumstances particularly lead to the Film Impairment were not anticipated at the time of the investment in the Film.

The due diligence work performed by the Company before making the investment in the Film

Prior to entering into the investment, the Company had performed the following due diligence procedures:

(1) the management of the Company had attended various meetings with the management of Inversion, and noted that Inversion is a single purpose entity to produce and exploit the Film and is the sole owner of the underlying rights of the Film and all ancillary rights and operations to be derived from the development of the Film, to understand the film production and distribution as well as the production budget and financial projection of the Film;

(2) the management of the Company had requested for and been provided with the production budget, financial projection, screenplay and background information of the tentative production crew of the Film as well as the corporate information of Inversion;

(3) the management of the Company had reviewed, considered and analysed the information provided and representations made by Inversion and also discussed and reviewed the assumptions of the aforesaid production budget and financial projection of the Film in light of

the market conditions of the PRC and worldwide distribution markets and was of the view that the assumptions of the said production budget and financial projection of the film were valid and reasonable at the time of the investment;

(4) the Company had obtained the worldwide theatrical release results of past films which genre were similar to that of the Film and considered the same when assessing and determining the production budget and financial projection of the film;

(5) the Company had engaged legal adviser to review the agreements of the investment; and

(6) the Company had also reviewed the background and experience of the directors of Inversion, who are well known industry participants and the management of the Company had met in person with them to discuss on the Film investment. On the other hand, the Company understands that Inversion is a project company set up for the production of the Film with no other project or historical operation and therefore the Company considered that conducting due diligence on the experience and track record of its directors is sufficient.

Moreover, during the course of negotiation for the extensions of time for the principal photography and the entering into of the supplemental agreements, the Group reviewed and took into account of the followings:

(7) the revised production budget and crew list provided by Inversion;

(8) the media report that Inversion has released advertisement in the Cannes Film Festival to invite potential investors and distributors.

The Directors and management will closely monitor the progress of the Film and continue to liaise with Inversion prior to the extended commencement for the principal photography. Pursuant to the terms of the agreement (as supplemented), the Company can recoup the investment upon the commencement of principal photography of the Film or upon the close of bank financing of the Film. At the time of making the investment, it was also pledged in favour of the Company certain rights in the Film, and granted with an option to the Company to recoup the investment from the proceeds of another film (the "**Alternate Film**") which was planned to be shot. In the event that the principal photography of the Film did not commence by the agreed time or if the production of the Film is abandoned, the Group is entitled to exercise its rights to seek full recoupment of the investment from the Alternate Film.

With regard to the option to recoup investment from the Alternate Film, the Company had previously negotiated with the relevant parties to the Alternate Film and had further assessed the proposal of the Alternate Film but considered that it would not be a commercial success and would not provide attractive alternative income to the Company, therefore the Company did not consider to seek recoupment from the Alternate Film. On the other hand, the Company considers the enforcement of the right over the pledge may not be a practical way to recover the investment at the moment, since the Company will still need to raise funds on its own and recruit its own crew and production team to complete the shooting, which is expected to be out of the capacity of the Company at present. Nevertheless, the Company will negotiate with Inversion on the recoupment of investment and seek legal advice as to its recovery.

(III) IMPAIRMENT LOSS ON INTEREST IN JADE DYNASTY HOLDINGS LIMITED ("JDH"), AN ASSOCIATE OF THE GROUP, AND ITS SUBSIDIARIES (THE "JDH GROUP")

JDH is an associate of the Company in which the Company indirectly holds 40% of the issued share capital thereof, principally engaged in comic publication and own the intellectual property rights of a database of comic stories and comic heroes. During the year ended 30 June 2018, the Company had made a further impairment of HK$22,295,000 on the investment in JDH (the "**JDH Impairment**")

Circumstances leading to the JDH Impairment

The factors leading to the JDH impairment are:

(a) the valuation prepared by an independent valuer on the value of the cash generating unit in relation to the entire equity interest of the JDH Group;

(b) due to the substantial shortfall between the actual licensing fee received under the Movie and Drama Business segment of JDH during the year ended 30 June 2018 compared with the budget previously prepared for the year. After conducting an overall review on the Movie and Drama Business, the future estimated cash flows was revised downward significantly for the 2018 impairment assessment;

(c) the current market condition since mid-2018 and the future prospectus and estimated cash flow and income of the JDH Group for the forthcoming year;

(d) the value in the cash generating unit in relation to the equity interest of the JDH Group compared with the previous financial years ended 30 June 2017.

The factors, events or circumstances leading to the JDH Impairment were not anticipated at the time of the Acquisition back in 2013.

Due diligence procedures performed by the Company before the acquisition of JDH (the "Acquisition")

Prior to entering into the Acquisition back in 2013, the Company had performed the following due diligence procedures:

(a) the management of the Company had attended various meetings with the management of JDH to understand the business and operation as well as the financial performance of the JDH Group;

(b) the management of the Company had requested for and been provided with the financial information, corporate information and historical operating data of the JDH Group, including without limitation the audited and management accounts of the JDH Group, information on the intellectual property rights it was holding and the business contracts it had executed and performed;

(c) the management of the Company had reviewed, considered and analysed the information provided and representations made by the JDH Group and the vendor to the Acquisition (the "**Vendor**") and prepare a cash flow projections/budgets of the JDH Group for the valuation of the intellectual property rights held by the JDH Group;

(d) the Company had obtained a valuation from an established independent firm (the "**Valuer**") engaged in the provision of valuation and technical advisory of the fair values of the intangible assets of JDH Group, namely trademark and the character-based intellectual properties, to which the Company had made reference when determining the consideration of the Acquisition;

(e) the management of the Company had discussed and reviewed the assumptions of the aforesaid valuation with the Valuer in light of the market conditions of Hong Kong and the PRC and was of the view that the assumptions of the said valuation were valid and reasonable at the date of the said valuation;

(f) the Company had obtained the price-to-earnings ratio of other companies whose business were similar to that of the JDH Group and considered the same when assessing and determining the consideration for the Acquisition; and

(g) the Company had engaged legal advisers in Hong Kong, the PRC, British Virgin Islands and Samoa to conduct legal due diligence exercises on the JDH Group.

Method, basis and key assumptions used in determining the amount of the JDH Impairment

The Group conducted impairment assessment to the JDH Group in accordance with HKAS 36 annually, and the amount of JDH Impairment was determined based on a valuation prepared by independent valuer, which was prepared based on the same method adopted in the valuation of the investment in JDH for the previous financial years after the Acquisition.

The valuation for the JDH Impairment was prepared using DCF, which is the same as those adopted in the previous valuation on the value of JDH Group after the Acquisition. Except for the downward revision of future estimated cash flows, there is no material change in the basis, assumptions and material inputs of the valuation compared to those previously adopted in the valuation for the previous financial year ended 30 June 2017. Please also refer to Note 16 to the audited consolidated financial statements of the Company as contained in the Annual report for more detail of the basis and key assumptions of the valuation.

The Company is reviewing the operation, performance and prospect of the JDH Group on an ongoing basis and may consider realizing the investment in JDH should suitable opportunity arises and the condition of the JDH Group justifies such realization.

GENERAL

The additional information set out above does not affect other information contained in the Announcement and the Annual Report and the contents of the Announcement and the Annual Report remain unchanged.

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

Hong Kong, 15 November 2018

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