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Transmit Entertainment Limited
傳遞娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$668.1 million for the year ended 30 June 2019, representing an increase of approximately HK\$393.5 million or 143.3% when compared to the corresponding period of last year.
- The gross profit for the year ended 30 June 2019 reached approximately HK\$262.3 million, representing an increase of approximately 89.5% as compare with the corresponding period of last year.
- The Group reported a loss attributable to owners of the Company of approximately HK\$35.5 million for the year ended 30 June 2019 as compared to a loss of approximately HK\$189.8 million for the corresponding period of last year.
- The Group's net assets and net current liabilities as at 30 June 2019 reached approximately HK\$86.2 million and HK\$95.8 million respectively.
- The Board does not recommend the payment of final dividend for the year ended 30 June 2019.

RESULTS FOR THE YEAR ENDED 30 JUNE 2019

The board (the “Board”) of directors (the “Directors”, each a “Director”) of Transmit Entertainment Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

		2019	2018
	Note	HK\$'000	HK\$'000
Revenue	3	668,130	274,640
Cost of sales		<u>(405,843)</u>	<u>(136,196)</u>
Gross profit		262,287	138,444
Other gains and losses	5	21,055	8,608
Other income	5	11,347	7,681
Selling and distribution expenses		(207,271)	(200,624)
Administrative expenses		(67,316)	(50,981)
Net foreign exchange (loss) gain		(226)	1,859
Impairment loss on property, plant and equipment		–	(40,579)
Impairment loss on interests in associates	10	(16,317)	(22,295)
Impairment loss on available-for-sale investment		–	(2,736)
Impairment loss on investment in film/drama production		–	(19,613)
Fair value change on contingent consideration payable	17	(20,511)	–
Finance costs	6	(11,630)	(262)
Share of results of associates		(1,484)	74
Share of results of a joint venture		<u>97</u>	<u>445</u>
Loss before tax	4	(29,969)	(179,979)
Income tax expense	7	<u>(5,719)</u>	<u>(10,072)</u>
Loss for the year	8	<u>(35,688)</u>	<u>(190,051)</u>

	2019	2018
<i>Note</i>	HK\$'000	HK\$'000
Other comprehensive income (expense) for the year		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Reclassification adjustments upon disposal of a subsidiary included in profit or loss	165	–
Share of exchange difference of a joint venture arising on translating foreign operation	(133)	28
Share of exchange difference of an associate arising on translating foreign operation	305	(39)
Exchange difference arising on translating foreign operation	<u>5,266</u>	<u>(1,373)</u>
	<u>5,603</u>	<u>(1,384)</u>
Total comprehensive expense for the year	<u>(30,085)</u>	<u>(191,435)</u>
Loss for the year attributable to:		
– Owners of the Company	(35,504)	(189,750)
– Non-controlling interests	<u>(184)</u>	<u>(301)</u>
	<u>(35,688)</u>	<u>(190,051)</u>
Total comprehensive expense for the year attributable to:		
– Owners of the Company	(29,901)	(191,134)
– Non-controlling interests	<u>(184)</u>	<u>(301)</u>
	<u>(30,085)</u>	<u>(191,435)</u>
Loss per share	9	
Basic (HK cents)	<u>(1.37)</u>	<u>(7.31)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		88,281	99,005
Goodwill	<i>17</i>	411,876	–
Intangible assets		5,600	5,600
Interests in associates	<i>10</i>	8,418	28,114
Interest in a joint venture		169	205
Rental deposits		30,358	31,125
Deferred tax assets		161	1,179
		544,863	165,228
Current assets			
Film and television rights		4,787	1,772
Film and television series production in progress		134,203	140,058
Available-for-sale investment		–	1,320
Investments in film/drama production		–	2,920
Inventories		685	690
Trade and other receivables	<i>11</i>	162,719	9,619
Rental deposits		19,163	18,712
Amounts due from related companies		–	143
Tax recoverable		713	716
Pledged bank deposits		664	10,661
Bank balances and cash		122,035	76,336
		444,969	262,947
Assets classified as held for sale			
		–	28,275
		444,969	291,222

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Current liabilities			
Trade and other payables	12	219,555	119,469
Contract liabilities		46,562	–
Receipts in advance		–	154,663
Tax payable		5,585	4
Bank and other borrowings	13	65,220	8,208
Loans from a related company	14	64,274	–
Amounts due to related companies		–	40,031
Amount due to a joint venture		385	8,296
Contingent consideration payable		139,235	–
		<u>540,816</u>	<u>330,671</u>
Liabilities associated with assets classified as held for sale		<u>–</u>	<u>8,362</u>
		<u>540,816</u>	<u>339,033</u>
Net current liabilities		<u>(95,847)</u>	<u>(47,811)</u>
Total assets less current liabilities		<u>449,016</u>	<u>117,417</u>

		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Deposits received	12	950	1,116
Bonds payable		22,000	–
Loans from a related company	14	161,695	–
Contingent consideration payable		178,155	–
		362,800	1,116
Net assets		86,216	116,301
Capital and reserves			
Share capital	15	6,489	6,489
Reserves		83,690	113,591
Equity attributable to owners of the Company		90,179	120,080
Non-controlling interests		(3,963)	(3,779)
Total equity		86,216	116,301

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Attributable to owners of the Company					Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (Note)	Exchange reserve HK\$'000	Accumulated losses HK\$'000			
At 1 July 2017	6,489	521,046	10	(2,223)	(214,108)	311,214	(3,478)	307,736
Loss for the year	–	–	–	–	(189,750)	(189,750)	(301)	(190,051)
Share of exchange difference of a joint venture arising on translating foreign operation	–	–	–	28	–	28	–	28
Share of exchange difference of an associate arising on translating foreign operation	–	–	–	(39)	–	(39)	–	(39)
Exchange difference arising on translating foreign operation	–	–	–	(1,373)	–	(1,373)	–	(1,373)
Total comprehensive expense for the year	–	–	–	(1,384)	(189,750)	(191,134)	(301)	(191,435)
At 30 June 2018	6,489	521,046	10	(3,607)	(403,858)	120,080	(3,779)	116,301
Loss for the year	–	–	–	–	(35,504)	(35,504)	(184)	(35,688)
Reclassification adjustments upon disposal of a subsidiary included in profit or loss (note 18(a))	–	–	–	165	–	165	–	165
Share of exchange difference of a joint venture arising on translating foreign operation	–	–	–	(133)	–	(133)	–	(133)
Share of exchange difference of an associate arising on translating foreign operation	–	–	–	305	–	305	–	305
Exchange difference arising on translating foreign operation	–	–	–	5,266	–	5,266	–	5,266
Total comprehensive income (expense) for the year	–	–	–	5,603	(35,504)	(29,901)	(184)	(30,085)
At 30 June 2019	6,489	521,046	10	1,996	(439,362)	90,179	(3,963)	86,216

Note: Other reserve represents the difference between the aggregate nominal value of the respective share capital of the companies now comprising the subsidiaries of the Company over the nominal value of the shares of the Company issued pursuant to the group reorganisation completed on 5 October 2012 to rationalise the structure of the Group in preparation for the listing of the Company's shares (the "Listing") on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1A. GENERAL

Transmit Entertainment Limited is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. The Company's registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Flat B, 14/F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong. Its immediate and ultimate holding company is Nice Rich Group Limited, a company incorporated in the British Virgin Island (the "BVI"). Its ultimate controlling shareholder is Mr. Zhang Liang, Johnson, who is also the Chairman and an executive director of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries are film and television ("TV") series production, distribution and licensing of film rights, film exhibition, post-production, as well as advertising, marketing and publication.

The consolidated financial statements are presented in Hong Kong dollar ("HK\$"), which is the Company's functional and presentation currency.

1B. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019, the Group had net current liabilities of approximately HK\$95,847,000 (2018: HK\$47,811,000). The net current liabilities included contract liabilities of HK\$46,562,000 which will be recognised as revenue upon the delivery of the film negatives and TV series program to the customers and TV broadcast networks and shall not have any cash flow to the Group, bank and other borrowings of HK\$65,220,000 which was repayable within one year (2018: HK\$8,208,000 was drawn from a banking facility of HK\$10,000,000 and were repayable on demand) and loans from a related company of HK\$64,274,000 (2018: Nil) which were unsecured, interest-bearing at 7% per annum and repayable within one year.

In the opinion of the directors of the Company (the "Directors"), after taking into account, among other things, the financial resources available to the Group including the future cash flows to be generated from the film and TV series production and distribution and the new placing agreement dated 16 September 2019 is entered into by the Company and the placing agent for the bonds of an aggregate principal amount of up to HK\$150,000,000 with a maturity date of three years from the bond issuance date. The Directors are satisfied that the Group will have sufficient working capital to meet its financial obligations and commitments as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis. Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standards (“HKAS”) 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 July 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Film and TV series production and distribution
- Film exhibition
- Others

Information about the Group's performance obligations are disclosed in note 3.

At the date of initial application, 1 July 2018, there is no difference recognised in the opening accumulated losses.

As at 1 July 2018, receipts in advance from customers of HK\$154,663,000 previously included in receipts in advance were reclassified to contract liabilities. The impacts from the application of HKFRS 15 thereof are shown in the following table.

	Carrying amounts previously reported at 30 June 2018 <i>HK\$'000</i> (audited)	Impact on adoption of HKFRS 15 <i>HK\$'000</i>	Carrying amounts under HKFRS 15 at 1 July 2018* <i>HK\$'000</i> (restated)
Current liabilities			
Receipts in advance	154,663	(154,663)	–
Contract liabilities	<u>–</u>	<u>154,663</u>	<u>154,663</u>

* The amounts in this column are before the adjustments from the application of HKFRS 9.

The following tables summarise the impacts of applying HKFRS 15 on the consolidated statement of financial position as at 30 June 2019 and its consolidated statement of cash flows for the year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current liabilities			
Receipts in advance	–	46,562	46,562
Contract liabilities	46,562	(46,562)	–
	<u> </u>	<u> </u>	<u> </u>

Impact on the consolidated statement of cash flows

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Operating activities			
Decrease in receipts in advance	–	(132,328)	(132,328)
Decrease in contract liabilities	(132,328)	132,328	–
	<u> </u>	<u> </u>	<u> </u>

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018, if any, are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 July 2018.

	Closing balance at 30 June 2018 under HKAS 39 HK\$'000 (audited)	Reclassification under HKFRS 9 HK\$'000	Opening balance at 1 July 2018 under HKFRS 9 HK\$'000 (restated)
Current assets			
Available-for-sale (“AFS”) investment	1,320	(1,320)	–
Financial assets at fair value through profit or loss (“FVTPL”)	<u>–</u>	<u>1,320</u>	<u>1,320</u>

Classification of AFS investment

From AFS investment to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group’s debt investment of HK\$1,320,000, which was previously measured at cost less impairment, was reclassified from AFS investment to financial assets at FVTPL.

Impairment under ECL model

The Group applied the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, except for those trade receivables have been assessed individually with significant outstanding balances, the remaining balances are grouped based on shared credit risk characteristics. The Group has therefore concluded that the expected loss rate for the trade receivables are reasonable.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, amounts due from related companies, pledged bank deposits and bank balances, are measured on 12 month ECL (“12m ECL”) basis and there had been no significant increase in credit risk since initial recognition.

As at 1 July 2018, no additional credit loss allowance has been recognised against accumulated losses as the amounts involved are insignificant.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	30 June 2018 HK\$'000 (audited)	Impact on adoption of HKFRS 15 HK\$'000	Impact on adoption of HKFRS 9 HK\$'000	1 July 2018 HK\$'000 (restated)
Current assets				
AFS investment	1,320	–	(1,320)	–
Financial assets at FVTPL	–	–	1,320	1,320
Current liabilities				
Receipts in advance	154,663	(154,663)	–	–
Contract liabilities	–	154,663	–	154,663

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 July 2018 as disclosed above.

New and amendments to HKFRSs and new interpretation issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and new interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the future, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of HK\$1,166,279,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$49,521,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

Amendments to HKFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 July 2020.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRS Standards and will be mandatorily effective for the Group's annual period beginning on 1 July 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. REVENUE

For the year ended 30 June 2019

Disaggregation of revenue from contracts with customers

	2019 HK\$'000
Film and TV series production, distribution and licensing income	415,156
Film exhibition income	243,590
Others	9,384
Total	668,130
Timing of revenue recognition	
At a point in time	643,272
Overtime	24,858
Total	668,130

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

Performance obligations for contracts with customers

- a. Film and TV series production, distribution and licensing
 - i. Income from the distribution of own produced films, variety shows and TV series program are recognised when the production is completed, the films, variety shows and TV series program have been released and distributed to the cinema circuit and TV broadcast networks and the amounts can be measured reliably, which are generally when the cinema circuit and TV broadcast networks confirms to the Group its share of box office receipts and profit entitlement.
 - ii. Income from the licensing of the distribution rights over films and TV broadcast networks are recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives, variety shows and TV series program to the customers and TV broadcast networks.
- b. Film exhibition
 - i. Income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released.
 - ii. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

c. Others

- i. Revenue from the sale of post-production goods is recognised when the goods are delivered and titles have passed.
- ii. Income from advertising service is recognised upon the provision of the services. Service income is recognised when services are provided.
- iii. Income from the screen advertising is recognised when relevant advertisements and programme are exhibited pursuant to the terms of the relevant agreements.

Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations for film and TV series production, distribution and licensing, film exhibition and others are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

For the year ended 30 June 2018

An analysis of the Group's revenue for the year ended 30 June 2018 is as follows:

	2018 HK\$'000
Film production, distribution and licensing income	41,492
Film exhibition income	223,854
Post-production income	2,932
Advertising and marketing income	6,362
	274,640

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on the following four reportable and operating segments identified under HKFRS 8 *Operating Segments* for the Group's annual financial statements for the year ended 30 June 2018.

- (i) Film and TV series production and distribution;
- (ii) Film exhibition;
- (iii) Post-production; and
- (iv) Advertising and marketing

For the current year, the executive directors of the Company considered the insignificant financial results generated from both the post-production and advertising and marketing and therefore re-grouped them into an “others” segment. As a result, there were three reporting and operating segments identified for the year ended 30 June 2019 as follows and the comparative figures for the segment information for the year ended 30 June 2018 were restated for consistent presentation:

- (i) Film and TV series production and distribution;
- (ii) Film exhibition; and
- (iii) Others (e.g. post production, advertising, marketing and publication businesses, internet and pan entertainment businesses, etc)

Segment profit (loss) represent the profit earned or loss incurred by each segment without allocation of certain other gains and losses, other income, certain selling and distribution expenses, certain administrative expenses, certain finance costs, impairment loss on interests in associates and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue and results

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

For the year ended 30 June 2019

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>415,156</u>	<u>243,590</u>	<u>9,384</u>	<u>668,130</u>
Segment profit (loss)	<u>50,783</u>	<u>(11,101)</u>	<u>(8,545)</u>	31,137
Unallocated head office and corporate expenses				(22,686)
Fair value change on contingent consideration payable				(20,511)
Loss on disposal of property, plant and equipment				(2)
Finance costs				(106)
Impairment loss on interests in associates				(16,317)
Share of results of associates				<u>(1,484)</u>
Loss before tax				<u>(29,969)</u>

For the year ended 30 June 2018 (restated)

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>41,492</u>	<u>223,854</u>	<u>9,294</u>	<u>274,640</u>
Segment loss	<u>(39,500)</u>	<u>(97,904)</u>	<u>(2,799)</u>	(140,203)
Unallocated other income				426
Unallocated head office and corporate expenses				(17,944)
Finance costs				(37)
Impairment loss on interest in an associate				(22,295)
Share of results of associates				<u>74</u>
Loss before tax				<u>(179,979)</u>

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

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 and others is derived from are as below:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong and Macau	271,051	240,784
The People's Republic of China (the "PRC")	382,616	32,257
South East Asia Region	9,554	163
Others	4,909	1,436
	668,130	274,640

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The PRC	550	10
Hong Kong	132,276	164,039
	132,826	164,049

Information about major customers

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A ¹	78,259	N/A
Customer B ¹	73,560	N/A
Customer C ¹	70,913	N/A
Customer D ¹	70,378	27,754

¹ Revenue from film and TV series production and distribution.

5. OTHER GAINS AND LOSSES AND OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Other gains and losses		
Compensation income (<i>note</i>)	–	8,260
(Loss) gain on disposal of property, plant and equipment	(2)	80
Gain on disposal of subsidiaries (<i>note 18</i>)	<u>21,057</u>	<u>268</u>
	<u>21,055</u>	<u>8,608</u>
Other income		
Handling service income	4,231	3,635
Investment income from investments in film/drama production	600	531
Government subsidies	–	83
Membership income	1,169	1,044
Interest income	771	426
Others	<u>4,576</u>	<u>1,962</u>
	<u>11,347</u>	<u>7,681</u>

Note: During the year ended 30 June 2018, the Group received a compensation of RMB7,000,000 (equivalent to HK\$8,260,000) from the landlord of a cinema leased in the PRC due to the delay in handover of the leased cinema to the Group. The compensation income was unconditional and paid to the Group in according to the lease agreement entered into with the landlord.

6. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest expenses on:		
Loans from a related company	10,601	–
Bank borrowings	923	262
Bonds payable	106	–
	<u>11,630</u>	<u>262</u>

7. INCOME TAX EXPENSE

	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits Tax		
– current	19	19
– (over)underprovision in prior years	(16)	582
	<u>3</u>	<u>601</u>
PRC Enterprise Income Tax (“EIT”)		
– current	5,605	554
– under(over)provision in prior years	127	(736)
	<u>5,732</u>	<u>(182)</u>
	5,735	419
Deferred tax	(16)	9,653
	<u>5,719</u>	<u>10,072</u>

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 are 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Khorgas special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from its first profit-making year. The enterprises engaged in the encouraged industries as defined under the 《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》 (Catalogue of Key Encouraged Developing Industries for Enterprise Income Tax Benefits in Difficult Areas of Xinjiang*). 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 PRC tax bureau on 23 June 2017 for entitlement of EIT exemption from 1 January 2017 to 31 December 2020.

8. LOSS FOR THE YEAR

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Loss for the year has been arrived at after charging:		
Directors’ emoluments	5,173	6,210
Other staff costs	39,080	31,675
Retirement benefit scheme contributions, excluding those of Directors	<u>1,985</u>	<u>1,975</u>
Total staff costs	<u>46,238</u>	39,860
Auditors’ remuneration	1,850	1,564
Depreciation of property, plant and equipment	14,449	18,887
Cost of film and television series rights recognised as an expense	269,714	18,071
Impairment loss on film and television series production in progress (included in cost of sales)	4,412	15,378
Loss on disposal of prepayment to an artiste (included in cost of sales)	–	3,600
Minimum lease payments under operating leases in respect of:		
Premises	3,527	3,689
Cinemas	122,073	121,083
Contingent rents incurred for cinemas	1,314	1,411
Cost of scriptwriters for film and TV services production	11,500	–
Cost of services provided	88,067	95,173
Cost of artiste and internet celebrity agency business	14,056	–
Cost of inventories sold	<u>5,058</u>	<u>3,887</u>

* For identification only

9. LOSS PER SHARE

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(35,504)</u>	<u>(189,750)</u>
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,595,613,733</u>	<u>2,595,613,733</u>

No diluted loss per share for both years were presented as the Company has no potential ordinary shares to be issued for both 2019 and 2018.

10. INTERESTS IN ASSOCIATES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost of unlisted investments in associates	74,000	74,000
Impairment loss recognised	<u>(58,963)</u>	<u>(42,646)</u>
	15,037	31,354
Share of post-acquisition losses and other comprehensive expenses, net of dividend received	<u>(6,619)</u>	<u>(3,240)</u>
	<u>8,418</u>	<u>28,114</u>

Interest in Jade Dynasty Holdings Limited (“JDH”)

JDH is an investment holding company incorporated in the BVI with limited liability and its subsidiaries (collectively known as “JDH Group”) are principally engaged in comic publication and own the intellectual property rights of a database of comic stories and comic heroes. Management anticipates that the Group would make use of the intellectual property rights of the associate (including but not limited to the comic stories and comic characters) that the Group considers these are suitable for reproduction as films. The Group is able to exercise significant influence over JDH because it has power to appoint 2 out of 5 directors of JDH under its Articles of Association. Therefore, JDH is accounted for as an associate of the Group.

The recoverable amount of the Cash Generating Units (“CGU”) arising from JDH Group was determined based on value in use calculations which was performed by Roma Group Limited, an independent qualified professional valuer not connected with the Group, as at 30 June 2019. For impairment assessment purpose, the calculation uses cash flow projections of the associate based on the financial budgets attributable to the equity interest of the Group approved by management covering five-year period and a post-tax discount rate of 21.28% (2018: 22.32%). Cash flows beyond the 5-year period are extrapolated using a steady 2% (2018: 2%) expected inflation rate for the CGU. The key assumption is budgeted revenue determined based on the associate’s past performance and the management’s view of future business prospects.

During the year ended 30 June 2019, the Group recognised an impairment loss of HK\$6,317,000 (2018: HK\$22,295,000) of JDH Group due to the intense competition in the market of comic publication and licencing the copyrights of comic which resulted in a decrease in expected future cashflows accordingly. As a result, the difference of recoverable amount, which is the value in use, and the carrying amount (containing goodwill) is recognised as an impairment loss and charged to profit or loss.

Interest in Supreme Art Entertainment Limited (“Supreme Art”)

Supreme Art is a private entity incorporated in Hong Kong with limited liability which is engaged in provision of artiste management and agency services. Management anticipates that the artiste of Supreme Art can participate in the film production of the Group. The Group is able to exercise significant influence over Supreme Art because it has power to appoint 1 out of 3 directors of Supreme Art under its Articles of Association. Therefore, Supreme Art is accounted for as an associate of the Group.

The carrying amount of the Group’s interest in Supreme Art is also tested for impairment by comparing with the respective recoverable amount. The recoverable amount of the Group’s investment in Supreme Art has been determined based on value in use calculation which was performed by Roma Group Limited, an independent qualified professional valuer not connected with the Group, as at 30 June 2019. For impairment assessment purpose, the calculation uses cash flow projections of the associate based on the financial budgets attributable to the equity interest of the Group approved by Management covering five-year period and a post-tax discount rate of 18.35% (2018: 22.24%). Cash flows beyond the 5-year period are extrapolated using a steady 2.5% (2018: 2.6%) expected inflation rate for the CGU. Other key assumptions for the value in use calculations relate to the cash flow projections which include the artiste management fee received, the estimation of which is based on the management’s view of future business prospects.

During the year ended 30 June 2019, the Group recognised an impairment loss of HK\$10,000,000 (2018: Nil) of Supreme Art due to the expiration of certain artiste management agreements and the change in current market condition for artiste performance in the PRC which resulted in a decrease in expected future cashflows accordingly. As a result, the difference of recoverable amount, which is the value in use and the carrying amount (containing goodwill) is recognised as an impairment loss and charged to profit or loss.

As at 30 June 2018, the recoverable amount of Supreme Art is higher than the respective carrying amount and thus no impairment loss is recognised regarding to the Group’s interest in Supreme Art.

The details of the Group's associates at 30 June 2019 and 2018 are as follows:

Name of associate	Place of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2019	2018	2019	2018	
JDH	BVI	Hong Kong	40%	40%	40%	40%	Comic publication and owns the intellectual property rights of a data base of comic stories and comic heroes
Supreme Art	Hong Kong	Hong Kong	40%	40%	33.33%	33.33%	Artiste management and agency services

These associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information in respect of the Group's associates is set out below and was prepared in accordance with HKFRSs.

JDH Group

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets	69,865	76,836
Current assets	15,067	14,752
Current liabilities	(13,307)	(14,784)
Net assets	<u>71,625</u>	<u>76,804</u>
	Year ended 30 June 2019 <i>HK\$'000</i>	Year ended 30 June 2018 <i>HK\$'000</i>
Revenue	<u>14,350</u>	<u>18,372</u>
Loss for the year attributable to owners of the associate	<u>(5,970)</u>	<u>(1,652)</u>
Group's share of loss	<u>(2,388)</u>	<u>(661)</u>
Other comprehensive income (expense) for the year	<u>762</u>	<u>(97)</u>
Group's share of other comprehensive income (expense)	<u>305</u>	<u>(39)</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Net assets of JDH Group	71,625	76,804
Non-controlling interests of JDH Group	(95)	(66)
	71,530	76,738
Proportion of the Group's ownership interest in JDH Group	40%	40%
The Group's share of net assets of JDH Group	28,612	30,695
Goodwill	20,351	20,351
Impairment loss recognised (including goodwill)	(48,963)	(42,646)
Carrying amount of the Group's interest in JDH Group	–	8,400

Supreme Art

	2019 HK\$'000	2018 <i>HK\$'000</i>
Non-current assets	10,735	15,295
Current assets	16,540	11,468
Current liabilities	(6,230)	(2,478)
Net assets	21,045	24,285

	Year ended 30 June 2019 HK\$'000	Year ended 30 June 2018 <i>HK\$'000</i>
Revenue	15,038	9,590
Profit for the period attributable to owners of the associate	2,260	1,838
Group's share of profit	904	735
Dividend received from the associate during the year	2,200	3,080

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Net assets of Supreme Art	21,045	24,285
Proportion of the Group's ownership interest in Supreme Art	40%	40%
	8,418	9,714
Goodwill	10,000	10,000
Impairment loss recognised (including goodwill)	(10,000)	–
Carrying amount of the Group's interest in Supreme Art	8,418	19,714

11. TRADE AND OTHER RECEIVABLES

The aged analysis of the Group's trade receivables, net of allowance for credit losses, based on the invoice date which approximates the respective revenue recognition dates, at the end of the reporting period is as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Trade receivables:		
0 – 30 days	18,426	2,153
31 – 60 days	133	288
61 – 90 days	11,888	64
91 – 180 days	9,691	274
181 – 365 days	97,341	84
Over one year	2,869	12
	140,348	2,875
Other receivables, deposits and prepayments	5,986	4,271
Prepayment of interest to bondholders	884	–
Prepayment to artiste agency and scriptwriters	12,920	–
Other deposits and prepayments for cinema operation	2,581	2,473
	162,719	9,619

Generally, with the exception of PRC TV series production customers and post-production customers, who are generally granted credit period ranging from 30 to 90 days, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

As at 30 June 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$110,094,000 which are past due as at the reporting date. Out of the past due balances, HK\$109,779,000 has been past due 90 days or more and is not considered as in default by considering the background of the trade receivables and historical payment arrangement of these trade receivables. The Group does not hold any collateral over these balances.

As at 30 June 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$722,000 which are past due as at the reporting date for which the Group has not provided for credit loss. The Group does not hold any collateral or credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired:

	2018 HK\$'000
31 – 60 days	288
61 – 90 days	64
91 – 180 days	274
181 – 365 days	84
Over 365 days	12
	722

Management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit risk and the balances are still considered fully recoverable.

12. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	48,995	30,270
Payables in respect of acquisition of property, plant and equipment	10,534	21,992
Other payables and accruals	72,502	64,807
Investment funds from investors (<i>note i</i>)	51,015	–
Advance from former shareholder of subsidiaries acquired (<i>notes 17 and iv</i>)	36,343	–
Deposits received (<i>note ii</i>)	1,116	1,116
Deposit received from disposal of a subsidiary (<i>note iii</i>)	–	2,400
	220,505	120,585
Less: amount shown under non-current liabilities (<i>note ii</i>)	(950)	(1,116)
Amount shown under current liabilities	219,555	119,469

The average credit period on purchases of goods is 60 to 90 days. The aging analysis of trade payables presented is based on the invoice date at the end of the reporting period. The following is analysis of the Group's trade payables at the end of the reporting period:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Within 60 days	32,607	30,202
Within 61 to 90 days	1	7
Within 91 to 365 days	16,387	61
	48,995	30,270

Notes:

- (i) The investment funds from investors represent the share of return on investment to other investors of TV series produced by the Group.
- (ii) Deposits received represent deposits received from a cinema circuit operator in Hong Kong for a film to be theatrical release in Hong Kong and licensing deposits received from the licensee which are refundable at the expiry of the licenses. As at 30 June 2019, an amount of deposits of HK\$166,000 received will expire in November 2019 and therefore the amount was classified as current liabilities. The remaining amount of HK\$950,000 will expire in February 2022 and therefore, the amount was classified as non-current liabilities.
- (iii) Deposit received from disposal of a subsidiary represented the amount paid by the buyers, who are two independent third parties of the Group for acquiring entire equity interests of an indirect wholly-owned subsidiary of the Company and the disposal was completed as at 30 June 2019.
- (iv) The advances from former shareholder of subsidiaries acquired were non-trade nature, unsecured, interest-free and repayable on demand.

13. BANK AND OTHER BORROWINGS

	2019 HK\$'000	2018 <i>HK\$'000</i>
Secured bank borrowings:		
Variable-rate bank borrowing	22,800	8,208
Fixed-rate bank borrowing	3,420	–
	26,220	8,208
Unsecured other borrowing (<i>Note</i>)	39,000	–
	65,220	8,208

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

Carrying amount repayable (based on scheduled repayment terms):

	2019 HK\$'000	2018 HK\$'000
Within one year or on demand	65,220	2,441
Within a period of more than one year but not exceeding two years	–	2,515
Within a period of more than two years but not exceeding five years	–	3,252
	<u>65,220</u>	<u>8,208</u>
Less: Amounts due shown under current liabilities:		
On demand or due within one year	(65,220)	–
Due within one year and contain a repayment on demand clause	–	(2,441)
Due after one year but contain a repayment on demand clause	–	(5,767)
	<u>(65,220)</u>	<u>(8,208)</u>
Amounts due for settlement after 12 months	<u>–</u>	<u>–</u>

Note: The other borrowing is due to Pure Project Limited in which Mr. Wong Pak Ming (“Mr. Wong”) has controlling interests during the year ended 30 June 2019. Mr. Wong resigned as the executive director of the Company on 1 April 2019. Therefore, the amount was reclassified from the amount due to a related company to bank and other borrowings as at 1 April 2019. The other borrowing is unsecured, interest-free and repayable on demand.

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

	2019	2018
Fixed-rate borrowings RMB denominated borrowings	7.2%	–
Variable-rate borrowings RMB denominated borrowings	Benchmark	–
	Borrowing Rate of	
	the People's Bank	
	of China	
	+ 0.91%	
Variable-rate borrowings HKD denominated borrowings	<u>–</u>	<u>2.53% to 3.07%</u>

The bank borrowings are secured by trade receivables of RMB32,627,000 (equivalent to HK\$37,195,000) and guaranteed by an insurance company in the PRC (2018: a bank deposit of HK\$10,000,000 placed to a bank).

14. LOANS FROM A RELATED COMPANY

	2019 HK\$'000	2018 HK\$'000
Loan 1 (note i)	36,473	–
Loan 2 (note ii)	161,695	–
Loan 3 (note iii)	27,801	–
	<u>225,969</u>	<u>–</u>
Analysed as:		
Current liabilities	64,274	–
Non-current liabilities	161,695	–
	<u>225,969</u>	<u>–</u>

Notes:

- (i) Guangzhou Daide Management Consultancy Company Limited (“Guangzhou Daide”), a wholly-owned subsidiary of the Company, borrowed an aggregate loan advances of RMB31,000,000 (equivalent to HK\$35,650,000) from Guangzhou Seedland Real Estate Development Limited (“Guangzhou Seedland”), a company in which Mr. Zhang Liang, Johnson (“Mr. Zhang”) the controlling shareholder and the executive director of the Company, has controlling interests. The loan advances are unsecured, interest-bearing at 7% per annum and repayable in January 2020. Therefore, the loan advances are classified as current liabilities.
- (ii) Guangzhou Huohua Investment Company Limited (“Guangzhou Huohua”), a wholly-owned subsidiary of the Company, borrowed an aggregate loan advances of RMB135,000,000 (equivalent to HK\$155,250,000), in January 2019 from Guangzhou Seedland. The loan advances are unsecured, interest-bearing at 7% per annum and the loans amount with interests accrued are repayable in 3 years after the loan’s drawdown date. Therefore, the amounts are classified as non-current liabilities.
- (iii) 霍爾果斯厚海文化傳媒有限公司 Khorgas Houhai Culture Media Company Limited* (“Houhai Culture”), a non-wholly owned subsidiary of the Company, borrowed an aggregate loan advances of RMB38,000,000 (equivalent to HK\$43,700,000) from Guangzhou Seedland. The loan advances are unsecured, interest-bearing at 7% per annum and repayable on 31 December 2019. Therefore, the loan advances are classified as current liabilities. During the year ended 30 June 2019, partial repayment of RMB15,000,000 (equivalent to HK\$17,250,000) was made to Guangzhou Seedland.

* for identification purpose only

15. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2017, 30 June 2018 and 30 June 2019	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2017, 30 June 2018 and 30 June 2019	<u>2,595,613,733</u>	<u>6,489</u>

16. RELATED PARTY DISCLOSURES

(I) Transactions

During the year, the Group entered into the following significant transactions with related parties:

Name of related party	<i>Notes</i>	Nature of transaction	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
PM Motion Pictures Limited	(a)	Service income	288	49
Pure Project Limited	(b)	Rental expense	708	1,416
Mandarin Motion Pictures Production Limited ("Mandarin Motion")	(c)	Production service income	731	800
		Film distribution service fee	765	–
		Film processing service fee	1,467	211
Guangzhou Seedland	(d)	Interest expenses	<u>10,601</u>	<u>–</u>

Notes:

- (a) The service income was received from PM Motion Pictures Limited for the Group's provision of film distribution services. Mr. Wong (who resigned as executive director of the Company on 1 April 2019) and Mr. Wong Chi Woon, Edmond and Ms. Wong Yee Kwan, Alvina (the former executive directors of the Company), collectively have controlling interests in this company.
- (b) The rental expense was paid to Pure Project Limited for the office premise leased by the Group. Mr. Wong (who resigned as executive director of the Company on 1 April 2019) has controlling interests in Pure Project Limited.

- (c) The production, film distribution service and film processing income were received from Mandarin Motion in which Ms. Wong Kit Fong, the sister of Mr. Wong (who resigned as executive director of the Company on 1 April 2019), has controlling interests.
- (d) The interest expenses were paid to Guangzhou Seedland for the loan advances made to the Group in which Guangzhou Seedland is beneficially owned by Mr. Zhang, the controlling shareholder and the executive director of the Company.

(II) Balances

Details of the loans from a related company, amounts due from (to) related companies and amount due to a joint venture are set out in the consolidated statement of financial position.

(III) Compensation of key management personnel

The remuneration of Directors and other key management personnel of the Group during the year was as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Salaries and other allowances	12,974	9,990
Retirement benefit scheme contributions	315	133
	13,289	10,123

The remuneration of Directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

17. ACQUISITION OF SUBSIDIARIES

During the year, the Group has acquired the entire equity interest in Houhai Culture 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”) at a consideration of RMB450,000,000 (equivalent to HK\$517,500,000) minus the receivable of RMB20,456,000 (equivalent to HK\$23,525,000) taken by the former shareholders of Khorgas Group, which is payable in 3 instalments from 2018, 2019 and 2020, subject to the profit guarantee as stated in the sale and purchase agreement (the “Acquisition”). The Acquisition was completed on 28 August 2018 and details are set out in the circular issued by the Company dated 26 July 2018. The acquisition had been accounted for using the acquisition method. Khorgas Group is principally engaged in variety shows and TV program production and operation.

The fair value of net identifiable assets of Khorgas Group at the date of acquisition were as follows:

	At the date of acquisition HK\$'000
Plant and equipment	73
Television series production in progress	109,095
Trade and other receivables	47,144
Bank balances and cash	3,978
Trade and other payables	(19,329)
Contract liabilities	(24,903)
Advances from shareholders	(36,343)
Loan from a related company	(32,200)
Other loans	(4,658)
Net assets acquired	42,857
Cash consideration	153,900
Fair value of contingent consideration payable	300,833
Less: net assets acquired	(42,857)
Goodwill arising on acquisition	411,876

Goodwill arose in the acquisition of Khorgas Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Khorgas Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow arising on acquisition:

Cash consideration	153,900
Less: cash and cash equivalents acquired	(3,978)
	149,922

The fair value of trade and other receivables amounted to HK\$47,144,000, representing gross contractual amounts at the date of acquisition and contractual cash flows are expected to be fully collected.

The acquiree contributed turnover of HK\$190,670,000 and profit of HK\$46,067,000 to the Group for the period between the date of acquisition and 30 June 2019.

Had the acquisition been completed on 1 July 2018, total group revenue for the year would have been HK\$668,130,000 million, and loss for the year would have been HK\$37,408,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2018, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Khorgas Group been acquired at the beginning of the current year, the Directors have determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

18. DISPOSAL OF SUBSIDIARIES

For the year ended 30 June 2019

- (a) On 8 May 2018, 上海新馬電影院發展有限公司 (Shanghai Xinma Cinema Development Company Limited) (“Shanghai Xinma”), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with two independent third parties of the Group (the “Purchasers”), pursuant to which Shanghai Xinma agreed to sell and the Purchasers agreed to acquire 100% equity interest of 勝馬文化傳播(上海)有限公司 (Shengma Cultural Communication (Shanghai) Company Limited) (“Shengma Cultural”), a direct wholly-owned subsidiary of Shanghai Xinma which engaged in cinema operations and management in the PRC, at a consideration of RMB40,700,000 plus the cash at bank of Shengma Cultural at the completion date and minus (i) the total amount of liabilities of Shengma Cultural at the completion date and (ii) the contingent liabilities. Details of the disposal are set out in the announcement issued by the Company dated 8 May 2018 and disclosed as “assets classified as held for sale and liabilities associated with assets classified as held for sale” for the year ended 30 June 2018.

On 31 July 2018, the disposal of Shengma Cultural was completed at an adjusted consideration of RMB23,495,000 (equivalent to HK\$26,784,000), after deducting the total amount of liabilities and agreed contingent liabilities of Shengma Cultural at completion date, and the control of Shengma Cultural has been passed to the Purchasers. Upon completion of the disposal, Shengma Cultural ceased to be a subsidiary of the Company.

Consideration received:

	<i>HK\$'000</i>
Cash received	<u>26,784</u>

Analysis of assets and liabilities over which control was lost:

	Total <i>HK\$'000</i>
Property, plant and equipment	18,947
Inventories	55
Trade and other receivables	3,790
Rental deposits	1,230
Bank balances and cash	565
Trade and other payables	(19,126)
Contract liabilities	(346)
Tax payable	<u>(159)</u>
Net assets disposed of	<u>4,956</u>

* for identification purpose only

Gain on disposal of a subsidiary:*HK\$'000*

Cash received	26,784
Reclassification of cumulative exchange reserve upon disposal to profit or loss	(165)
Less: net assets disposed of	<u>(4,956)</u>
Gain on disposal	<u>21,663</u>

Net cash inflow arising on disposal:*HK\$'000*

Cash received	26,784
Deposit received included in trade and other payables	(2,400)
Cash and cash equivalents disposed of	<u>(565)</u>
	<u>23,819</u>

- (b) On 1 April 2019, the Group has disposed of the entire equity interest in Pegasus Motion Pictures Investment Limited (“PMPIL”), an indirect wholly-owned subsidiary of the Company, to an independent third party at a cash consideration of HK\$1,000,000. PMPIL is engaged in film investment. The disposal was completed on 1 April 2019, on which date when the control of PMPIL passed to the acquirer.
- (c) On 28 May 2019, the Group has disposed of the entire equity interest in Skywork Media Limited (“Skywork”), an indirect wholly-owned subsidiary of the Company, to an independent third party at a cash consideration of HK\$1,400,000. Skywork is engaged in digital media post-production. The disposal was completed on 28 May 2019, on which date when the control of Skywork passed to the acquirer.

The net assets of PMPIL and Skywork at the date of disposal were as follows:

Consideration received:

	PMPIL <i>HK\$'000</i>	Skywork <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash received	<u>1,000</u>	<u>1,400</u>	<u>2,400</u>

Analysis of assets and liabilities over which control was lost:

	PMPIL <i>HK\$'000</i>	Skywork <i>HK\$'000</i>	Total <i>HK\$'000</i>
Property, plant and equipment	–	1,439	1,439
Deferred tax asset	–	1,034	1,034
Trade and other receivables	–	775	775
Bank balances and cash	–	654	654
Trade and other payables	(3)	(352)	(355)
Contract liabilities	–	(459)	(459)
Amount due to a director	–	(82)	(82)
Net (liabilities) assets disposed of	(3)	3,009	3,006

Gain (loss) on disposal of subsidiaries:

	PMPIL <i>HK\$'000</i>	Skywork <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash received	1,000	1,400	2,400
Less: net liabilities (assets) disposed of	3	(3,009)	(3,006)
Gain (loss) on disposal	1,003	(1,609)	(606)

Net cash inflow arising on disposal:

	PMPIL <i>HK\$'000</i>	Skywork <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cash received	1,000	1,400	2,400
Less: bank balances disposed of	–	(654)	(654)
	1,000	746	1,746

For the year ended 30 June 2018

On 31 March 2018, the Group has disposed of the entire equity interest in Star Pictures Entertainment Limited (“Star Pictures”), an indirect wholly-owned subsidiary of the Company, to an independent third party at a cash consideration of HK\$12,044,000. Star Pictures is engaged in representing the Group in entering into actors’ and film directors’ contracts and film distribution. The disposal was completed on 31 March 2018, on which date when the control of Star Pictures passed to the acquirer. The net assets of Star Pictures at the date of disposal were as follows:

Consideration received:*HK\$'000*

Cash received	12,044
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Analysis of assets and liabilities over which control was lost:*HK\$'000*

Film production in progress	11,238
Prepayment	517
Bank balances	30
Receipts in advance	(9)
Net assets disposed of	11,776

Gain on disposal of a subsidiary:*HK\$'000*

Cash received	12,044
Less: net assets disposed of	(11,776)
Gain on disposal	268

Net cash inflow arising on disposal:*HK\$'000*

Cash received	12,044
Less: bank balances disposed of	(30)
	12,014

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 30 June 2019 (30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in (i) film and TV series production, distribution and licensing of film rights; (ii) film exhibition; and (iii) others. The Group mainly produces Chinese films, variety shows and TV series in both mainland China and Hong Kong. It also operates five Hong Kong based cinemas. During the year ended 30 June 2019, the Group further realized its strategy of business diversification and commenced pan-entertainment business, including production business, artiste and internet celebrity agency business and business derived from the upstream and downstream of such businesses.

Film and TV series production and distribution

During the year ended 30 June 2019 review, film and TV series production and distribution business remained as the core business of the Group with reported revenue of approximately HK\$415.2 million, representing a significant increase of approximately 900.6% as compared to the corresponding period of last year. The Group released three films during the year under review, including action blockbuster “L Storm” (L風暴) and “The Invincible Dragon” (九龍不敗) and general-scale drama film “Lucid Dreams” (八步半喜怒哀樂), while two films were released last year, namely “Love Forever” (我們遇見松花湖) and “Tomorrow Is Another Day” (黃金花), in addition to a sharing of worldwide box office receipts of “S Storm” (S風暴).

In August 2018, the Group completed the Acquisition of Houhai Culture. Through its collection of intellectual property works with commercial value, and in-house developed high-quality proprietary contents, Houhai Culture can independently accomplish a series of essential operational activities ranging from planning, scriptwriting, filming, post-production, distribution to marketing, and it strives to create variety shows and film and television programme that continue for multiple seasons. During the year under review, the Group consolidated its accounts for the first time, and recorded revenue mainly from the broadcasting of the variety show “Give Me Five Season II” (高能少年團第二季) and internet drama “Romance of the Youth” (少年江湖物語), and the copyright and adaptation of the manga “Hikaru no Go” (棋魂).

Furthermore, the romantic detective reality show developed and produced by the Group, namely “I Love You, Me Too” (喜歡你，我也是), was broadcasted on the online video platform iQIYI during the year under review and continued to attract widespread attention and discussion from netizens. A number of fans and numerous well-known entertainment bloggers actively participated in and followed up the discussion of the topic in variety show of “I Love You, Me Too” on Weibo. The programme achieved outstanding performance in various ranking lists, such as “Weibo Hot Searches” (微博熱搜榜), “Maoyan Variety Show Ranking” (貓眼綜藝熱度榜), “Iqiyi Variety Show Ranking” (愛奇藝綜藝榜), “Zhihu Hot Searches” (知乎熱搜) and “Douyin Hot Searches” (抖音熱搜). While highly recognized by the sponsors, the programme has also significantly increased the brand awareness of the Group.

Film exhibition

Film exhibition was another key revenue driver for the Group. During the year under review, the Group operated five cinemas at different strategic locations across Hong Kong, including Mong Kok, Chai Wan, Causeway Bay and Tsuen Wan, providing 23 screens and over 3,000 seats. According to the statistics from Hong Kong Box Office Limited, the Hong Kong box office receipts posted an increase of approximately 6.4% in the first half of 2019 to approximately HK\$1.05 billion. Benefiting from the full operation of five cinemas, during the year under review, the revenue from the Group’s film exhibition increased by approximately 8.8% to approximately HK\$243.6 million as compared to the corresponding period of last year, accounting for approximately 36.5% of total revenue of the Group. Despite the increase in the revenue, this business segment still recorded a loss of approximately HK\$11.1 million due to the relatively low cinema attendance. However, the loss decreased as compared to approximately HK\$97.9 million last year due to five cinemas being put into full operation during the year under review.

Given that the Group’s cinema in mainland China, located at “Vivo City” (怡豐城), Shanghai, commenced its operation in late September 2017, its profitability had not been proven and there were uncertainties as to its financial contributions and prospects. The Group completed the disposal of this business in July 2018. The net proceeds from the disposal of HK\$21.7 million will be used to further invest in other business segments as part of the resource reallocation of the Group.

Others

During the year ended 30 June 2019, the post-production, advertising, marketing and publication businesses of the Group recorded a total revenue of approximately HK\$9.4 million, representing an increase of approximately 1.0% as compared to approximately HK\$9.3 million for the corresponding period of last year. This business segment recorded a loss of approximately HK\$7.9 million during the year under review (2018: loss of approximately HK\$2.8 million). Taken into account the small scale operation of the post-production business of the Group in the recent years, the recent market trend and the change in the overall business strategy of the Group, the Group has disposed of the post-production business during the year under review.

In order to achieve long-term sustainable development, during the year under review, the Group has formed collaborative relationship with various artists, internet celebrities, agencies, renowned scriptwriters and popular directors to make in-depth development in the film and television industry. Meanwhile, the Group nurtures new celebrities and develops Multi Channel Network (MCN) business with vast resources related to films and televisions on different broadcast platforms and websites and expands its revenue base through developing its self-developed consumer brand, and thereby promoting the development strategy of brand diversification and enhancing the Group's brand awareness in the industry.

Of which, the joining of Chinese renowned scriptwriter Li Xiaoming (李小明), famous scriptwriter Shu Huan (束煥) (representative works include “Lost in Thailand” (人再囧途之泰囧) and “Lost in Hong Kong” (港囧)), well-known scriptwriter Su Biao (蘇彪) (representative works include “Jian Bing Man” (煎餅俠) and “City of Rock” (縫紉機樂隊)) and new popular director Wu Qiang (吳強) further improves the strength in content creation of the Group. Li Xiaoming serves as the director of literature of the Group to provide guidance and support to the content creation team in terms of script planning. A series of classic works produced by Li Xiaoming was well published and loved by audience, including his early works such as “Yearnings” (渴望), “Beijinger in New York” (北京人在紐約), “Satisfied” (過把癮) and “Love Story in Shanghai” (像霧像雨又像風), and modern dramas on which he served as the producer in recent years such as “May-December Love” (大丈夫) and “The First Half Of My Life” (我的前半生). New popular director Wu Qiang is one of the most recognized directors in China by young audience and online platforms in recent years. He is a famous director in China and has been deeply involved in art and cultural creation in film and television with exquisite and diligent style. He has directed popular TV dramas such as “Well-Intended Love” (奈何boss要娶我), “The Eternal Love” (雙世寵妃) and “Diamond Lover” (克拉戀人).

Taking into account the recent market trends, the Group will not enter into further contract negotiation with agencies of Kan Qingzi (闕清子), Zhao Da (趙達), Shi Shi (施詩), Zhang Xiaoqian (張曉謙), Wang Yi (王藝), Oscar Jiang (江銘亮), Re Yina (熱依娜), Wu Yue (吳月), Chen Jiabin (陳嘉敏), Ma Mengjia (馬夢嘉), Liang Siyu (梁思雨), Xu Kexin (許可昕), You Lixi (優麗絲), Dai Yu Dan (代雨丹) and Wang Jingyi (王晶怡), but will maintain long-term strategic and co-operative relationships.

Financial review

Revenue and gross profit

Revenue of the Group for the year under review amounted to approximately HK\$668.1 million, representing an a significant increase of approximately HK\$393.5 million or 143.3% as compared to the corresponding period of last year, mainly contributed by revenue from the business segments of film and TV series production and distribution and film exhibition of approximately HK\$415.2 million and HK\$243.6 million respectively. During the year under review, the Group (i) released three films, including “L Storm” (L風暴), a large-scale action film starring Louis Koo (古天樂) and Julian Cheung (張智霖), “The Invincible Dragon” (九龍不敗), an action blockbuster starring Max Zhang (張晉) and Anderson Silva, a former Ultimate Fighting Championship (“UFC”) middleweight champion, and directed by Fruit Chan (陳果), and “Lucid Dreams” (八步半喜怒哀樂), a general-scale drama film starring Kevin Cheng (鄭嘉穎), Louis Cheung (張繼聰), Dada Chan (陳靜) and Stephy Tang (鄧麗欣) and directed by Teddy Robin (泰廸羅賓), while two films had been released last year, namely “Love Forever” (我們遇見松花湖) and “Tomorrow Is Another Day” (黃金花), in addition to a sharing of worldwide box office receipts of “S Storm” (S風暴); and (ii) recorded broadcast revenue from the variety show “Give Me Five Season II” (高能少年團第二季) and internet drama “Romance of the Youth” (少年江湖物語) produced by Houhai Culture, and obtained revenue from the copyright and adaptation of the manga “Hikaru no Go” (棋魂), thus revenue from film and TV series production and distribution recorded a significant year-on-year increase of approximately 900.6%. For the film exhibition segment, the revenue for the year under review recorded an increase of approximately 8.8% as compared to the corresponding period of last year, which was due to the full operation of five cinemas in Hong Kong.

Gross profit of the Group was approximately HK\$262.3 million, representing an increase of approximately HK\$123.8 million or approximately 89.5% as compared to the corresponding period of last year. Gross profit margin for the year under review was approximately 39.3%, which showed a decrease from that of approximately 50.4% for the corresponding period of last year. The decrease was mainly attributable to (i) additional revenue recorded from “S Storm” (S風暴) released in Chinese cinemas last year, while such additional revenue was absent in this year; and (ii) the newly acquired Houhai Culture operation accounted for approximately 28.5% of the Group’s revenue during the year under review while its gross profit margin was lower than the existing business. Such changes in sales mix also resulted in lower overall gross profit margin of the Group.

Other gains and income

Other gains and income was approximately HK\$32.4 million for the year under review, representing an increase of approximately HK\$16.1 million or approximately 98.9% as compared to the corresponding period of last year. This was mainly due to the recognition of the gain on disposal of subsidiaries of approximately HK\$21.1 million during the year ended 30 June 2019.

Selling and distribution expenses

Selling and distribution expenses slightly increased by approximately HK\$6.6 million or 3.3% from approximately HK\$200.6 million for the corresponding period of last year to approximately HK\$207.3 million for the year under review. This was mainly attributable to the increase of advertising and promotion expenses in film and TV series production and distribution. Such increase was primarily due to the growth of relevant advertising and promotion expenses resulting from the relatively larger production scale of the films released during the year under review.

Administrative expenses

Administrative expenses increased by approximately HK\$16.3 million or approximately 32.0% from approximately HK\$51.0 million for the corresponding period of last year to approximately HK\$67.3 million for the year under review, which was attributable to (i) the increase of legal and professional fee of approximately HK\$1.0 million related to certain corporate actions and transactions during the year under review; (ii) the increase of salary expense of approximately HK\$6.3 million during the year under review; and (iii) ordinary administrative expenses incurred by the newly-acquired company, Houhai Culture.

Share of results of associates

During the year under review, the Group had two associates, namely JDH Group and Supreme Art.

The operation of JDH Group has recorded a loss attributable to the Group of approximately HK\$2.4 million as compared to a loss attributable to the Group of approximately HK\$0.7 million to the corresponding period of last year. JDH Group generated revenue from the businesses of comics publication and licensing of its database of comic stories and comic characters for films, TV series and theme park development as well as related products merchandising.

The operation of Supreme Art has recorded a profit attributable to the Group of approximately HK\$0.9 million (2018: profit attributable to the Group of approximately HK\$0.7 million). Supreme Art is engaged in the provision of artiste management and agency services which are benefiting from the Group's film production business.

Share of results of a joint venture

Bounty Productions Limited ("BPL") was set up by the Group with two independent third parties for the production and distribution of the film, "Bounty Hunters" (賞金獵人), in which the Group owned 40% interest. BPL has recorded a profit attributable to the Group of approximately HK\$0.1 million during the year under review (2018: profit attributable to the Group of approximately HK\$0.4 million).

Loss for the year under review

The Group's loss and total comprehensive expense attributable to owners of the Company for the year under review amounted to approximately HK\$35.5 million (2018: loss of approximately HK\$189.8 million) and approximately HK\$29.9 million (2018: total comprehensive expense of approximately HK\$191.1 million) respectively. The decrease in loss of the Group for the year under review was mainly due to (i) the profit contributed by Houhai Culture; (ii) the revenue growth generated from the production and distribution of film "L Storm" (L風暴) and "The Invincible Dragon" (九龍不敗); and (iii) an impairment loss on property, plant and equipment and investment in film/drama production in the amount of approximately HK\$60.2 million was recorded in 2018 while no impairment loss on such items was recorded for the year ended 30 June 2019.

Impairment loss on interests in associates

During the year ended 30 June 2019, the Group recognized an impairment loss on interests in associates in the amount of approximately HK\$6,317,000 (30 June 2018: HK\$22,295,000) and HK\$10,000,000 (30 June 2018: Nil) in respect of JDH Group and Supreme Art respectively.

1. Circumstances leading to the JDH Group impairment

The factors leading to the JDH Group impairment are as follows:

- (a) the valuation prepared by an independent valuer on the value of the cash generating units in relation to the entire equity interest of the JDH Group;
- (b) the shortfall between the actual licensing fees received under the movie and drama business segment and comic park project of JDH Group during the year ended 30 June 2019 as compared with the budget previously prepared for the year. After conducting an overall review on the movie and drama business and comic park project, the future estimated cash flows were revised downward significantly for the impairment assessment conducted for the year ended 30 June 2019;
- (c) the current market condition since mid-2019 and the future prospects and estimated cash flow and income of JDH Group for the forthcoming year; and
- (d) decrease in value in the cash generating units in relation to the equity interest of JDH Group compared with the previous financial year ended 30 June 2018.

Method, basis and key assumptions used in determining the amount of the JDH Group impairment:

The Group conducted the impairment assessment to JDH Group in accordance with HKAS 36 annually, and the amount of JDH Group impairment was determined based on a valuation prepared by an independent valuer using Discounted Cash Flow (“DCF”) model, which is the same methodology adopted in the valuation of the investment in JDH Group for the previous financial year after the Acquisition.

Except for the downward revision of the future estimated cash flows of JDH Group, there was 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 2018.

The Company continues to review the operation, performance and prospects of JDH Group on an ongoing basis and may consider realizing the investment in JDH Group should suitable opportunity arises as and when the condition of JDH Group justifies such realization.

Please also refer to note 10 of the consolidated financial statements in this announcement for more details of the financial figures, basis and key assumptions of the valuation.

2. Circumstances leading to the Supreme Art impairment

The factors leading to the Supreme Art impairment are as follows:

- (a) the valuation prepared by an independent valuer on the value of the cash generating units in relation to the entire equity interest of the Supreme Art;
- (b) the expiration of certain artiste management agreements, resulting in the future estimated cash flows being revised downward significantly for the impairment assessment conducted during the year ended 30 June 2019;
- (c) the current market condition since mid-2019 and the future prospects and estimated cash flow and income of Supreme Art for the forthcoming year; and
- (d) decrease in value in the cash generating units in relation to the equity interest of the Supreme Art compared with the previous financial years ended 30 June 2018.

Method, basis and key assumptions used in determining the amount of the Supreme Art impairment:

The Group conducted the impairment assessment to Supreme Art in accordance with HKAS 36 annually, and the amount of Supreme Art impairment was determined based on a valuation prepared by an independent valuer using DCF model, which is the same methodology adopted in the valuation of the investment in Supreme Art for the previous financial year after the Acquisition.

Except for the downward revision of future estimated cash flows, there was 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 2018.

The Company continues to review the operation, performance and prospects of Supreme Art on an ongoing basis and may consider realizing the investment in Supreme Art should suitable opportunity arises as and when the condition of Supreme Art justifies such realization.

Please also refer to note 10 of the consolidated financial statements in this announcement for more details of the financial figures, basis and key assumptions of the valuation.

Liquidity, financial Resources And Capital Structure

As at 30 June 2019, the Group's bank balances and cash amounted to approximately HK\$122.0 million (30 June 2018: approximately HK\$76.3 million), which are denominated mainly in HK\$, United States Dollar ("US\$") and Renminbi ("RMB").

As at 30 June 2019, the Group's total debts, included bank and other borrowings, bonds payable and loans from a related company amounted to approximately HK\$65.2 million, approximately HK\$22.0 million and approximately HK\$226.0 million, respectively (30 June 2018: approximately HK\$8.2 million, Nil and Nil, respectively). As at 30 June 2019, the gearing ratio, representing the ratio of total debts to the total assets, was approximately 31.6% (30 June 2018: approximately 2.0%).

On 16 May 2019, 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, placees to subscribe in cash for the bonds in an aggregate principal amount of up to HK\$150,000,000 during the placing period. Details of the placing of bonds are set out in the announcement of the Group dated 16 May 2019. As at 30 June 2019, the Group's bonds payable amounted to approximately HK\$22.0 million.

As at 30 June 2019, the Group had total non-current assets of approximately HK\$544.9 million (30 June 2018: approximately HK\$165.2 million), net current liabilities of approximately HK\$95.8 million (30 June 2018: net current liabilities of approximately HK\$47.8 million) and net assets of approximately HK\$86.2 million (30 June 2018: approximately HK\$116.3 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 0.8 as at 30 June 2019 (30 June 2018: approximately 0.9).

During the year under review, the Group mainly funded its liquidity by the net proceeds from the Listing, bank and other borrowings, bonds, loans from a related company and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

SIGNIFICANT INVESTMENT

Save as disclosed in this announcement, the Group did not have any significant investment during the year ended 30 June 2019.

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group has acquired the entire equity interest in the Khorgas Group and its for a consideration of RMB450,000,000 payable in three instalments in 2018, 2019 and 2020, subject to the profit guarantee as stated in the profit guarantee agreement as contemplated thereunder the equity transfer agreement, pursuant to which the vendors have jointly and severally guaranteed that the consolidated audited profit of the Khorgas Group in respect of the financial years ending 31 December 2018 and 31 December 2019 will not be less than RMB40,000,000 (the "2018 Profit Guarantee") and RMB60,000,000, respectively. The Board is pleased to announce that the net profit after tax of the Khorgas Group had exceeded RMB40,000,000 and therefore the 2018 Profit Guarantee has been fulfilled. The acquisition was completed on 28 August 2018 and further details were set out in the circular of the Company dated 26 July 2018.

On 31 July 2018, the disposal of Shengma Cultural was completed and the control of Shengma Cultural has been passed to the Purchasers. Upon completion of the disposal, Shengma Cultural has ceased to be a subsidiary of the Group. Details of the disposal are set out in the announcement of the Company dated 8 May 2018.

Save as disclosed above, the Group did not process any material acquisition or disposal during the year ended 30 June 2019.

HUMAN RESOURCES

As at 30 June 2019, the Group employed a total of 260 permanent employees (30 June 2018: 298) in the PRC and Hong Kong. The total salaries and wages, including the Directors' remuneration and part-time workers, amounted to approximately HK\$46.2 million for the year ended 30 June 2019 (2018: approximately HK\$39.9 million).

The Group offers remuneration packages for employees mainly based on their performance and experience, and with reference to prevailing industry practices. In addition to enrolling our new employees into the mandatory provident fund scheme in Hong Kong and State-managed pension scheme in mainland China and making contributions for them on a periodic basis, the Group also provides medical coverage, internal and external training programs and grants share options and discretionary bonuses to employees based on employees' individual performance and the Group's overall performance. The Group reviews the remuneration policies and packages on a regular basis.

Charge on assets

As at 30 June 2019, the Group had bank deposits amounting to approximately HK\$0.7 million (30 June 2018: approximately HK\$0.7 million) that were pledged to banks for the bank guarantee provided to a subsidiary of the Group regarding its due payment under a cinema equipment rental agreement. The Group's bank borrowings are secured by trade receivables of RMB32,627,000 (equivalent to HK\$37,195,000) and guaranteed by an insurance company in the mainland China (2018: a bank deposit of HK\$10,000,000 placed to a bank). Save as mentioned above, the Group had not pledged its assets to any financial institutions.

TREASURY POLICY

The Group's business operations were conducted mainly in mainland China and Hong Kong with transactions principally denominated in HK\$, US\$ and RMB. The monetary assets and liabilities are denominated mainly in HK\$, US\$ and RMB. Apart from HK\$, which is pegged to US\$, any significant exchange rate fluctuations of HK\$ against RMB may have a financial impact on the Group. As the foreign exchange risks arising from sales and purchases can be eliminated against each other, and the fluctuations of RMB during the period had no significant impact on the costs and operations of the Group for the period, the Directors do not foresee significant risk in exchange rate fluctuation. Currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

CAPITAL COMMITMENT

There were no capital commitments for the Group as at 30 June 2018 and 2019.

CONTINGENT LIABILITIES

As at 30 June 2018 and 2019, the Group did not have any significant contingent liabilities.

USE OF PROCEEDS FROM THE LISTING

The planned use of proceeds from the Listing as disclosed in the prospectus of the Company dated 9 October 2012 (the “Prospectus”) were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied in accordance with the actual development of the market. From 31 October 2012, being the date of the Listing, to 31 December 2018, the net proceeds from the Listing had been applied being as follows:

	Total use of proceeds as described in the Prospectus <i>HK\$ million</i>	Actual use of proceeds from the date of the Listing to 31 December 2018 <i>HK\$ million</i>
Expansion of film production business	58.4	58.4
Investment in equipment for post-production	9.8	7.4
Staff recruitment	2.8	2.8
General working capital	2.5	2.5
Total	73.5	71.1

The un-utilised proceeds were deposited in the Group’s bank accounts located in Hong Kong.

The Group intended to expand its film production business by releasing eleven films during the two financial years ended 30 June 2013 and 2014. These eleven films had been all released by the end of the financial year ended 30 June 2018.

As disclosed in the Prospectus, the Group intended to acquire colour grading equipment (including a set of colour grading system, a set of projector and a set of digital video systems real-time player) for altering and enhancing of colour in the Group's films and the restoration processing of film negatives, as well as to acquire restoration and film storage facilities (including a set of film scanner, a set of raw storage system with 144 terabytes and a set of digital image restoration system). Up to the financial year ended 30 June 2016, the abovementioned equipment had been acquired. Since then, the post-production business of the Group remained stable in its size and operation. Taken into account the small scale operation of the post-production business of the Group in the recent years, the recent market trend and the change in the overall business strategy of the Group to focus more on its film and TV series production and distribution, as well as the film exhibition businesses, the Group has recently disposed of the post-production business. As such, the Group will not need to further acquire the said equipment which would be mainly used for the post-production business, and therefore, to better utilise idle cash of the Group. The Group considers it is more reasonable and commercially beneficial to reallocate and change the use of the remaining balance of the proceeds of approximately HK\$2.4 million as general working capital. As at 30 June 2019, the reallocated total use of proceeds from the Listing has been applied as follows:

	Reallocated total use of proceeds from the Listing HK\$ million	Actual use of proceeds from the date of the Listing to 30 June 2019 HK\$ million
Expansion of film production business	58.4	58.4
Investment in equipment for post-production	7.4	7.4
Staff recruitment	2.8	2.8
General working capital	4.9	2.5
Total	73.5	71.1

For the avoidance of doubt, other proceeds from the Listing has been applied in accordance with the Group's plan as disclosed in the Prospectus.

Outlook

Looking forward, the Group is committed to realizing the development strategy of brand diversification and actively develops its self-owned brand to broaden the revenue base through the celebrity market. The Group targets the beauty market that is greatly concerned by female audience and will invite a number of popular internet celebrities in beauty field to join the Group. The Group will tap into the film and television intellectual property (IP) derived products and e-commerce industry by developing its self-owned brand, and will nurture new celebrities and develop Multi Channel Network (MCN) business with vast resources related to films and televisions on different broadcast platforms and websites. By cooperating with celebrities with over millions of fans, the Group is able to maintain excellent long-term interaction with targeted fan groups in a bid to develop and promote its self-developed brand and form a complete business cycle. The management of the Group believes that the impressive performance and extensive experience of the celebrities on fan group operation, online and offline marketing and traffic monetization will enable the Group to rapidly develop its self-owned consumer brand and expand the pan-entertainment business. The Group will invite more popular celebrities to join us. It is expected the new business will generate sustainable synergy with the existing resources on film, television and variety shows and thereby creating a broad space for development for the Group in the field of pan-entertainment consumption.

In respect of the film and TV series production and distribution, a number of copyright projects of the Group are currently under pre-production stage, including Redemption on the “Blade” (刀鋒上的救贖), a mystery detective drama originally written by Zhi Wen (指紋), who is the screenwriter of “White Night Chase” (白夜追凶); “Mrs Hu Zhu” (斛珠夫人), a TV series with the copyright of Jiuzhou series, an online platform, and starring Yang Mi (楊冪); an internet variety show “Be An Influencer” (我是帶貨官); “Jia Fang Yi Fang Zhi Wei Qing Shi” (甲方乙方之維情師), a TV series written by Shu Huan (束煥) and to be produced by Feng Xiaogang (馮小剛), the script of which is about to complete.

Moreover, the Group has reached agreements with some popular copyright owners, and will develop, produce and publish work series for the following copyrights, including “Locard’s Theory” (洛卡爾定律), a Japanese TV series; “Love Destiny” (愛有天意), a Thai TV series; novels including “Imperial Harem” (後宮 • 真煩傳), “Next To The Last Girlfriend” (倒數第二個女朋友), “Romance in the City”(半城風月), “Turn Red into Green” (看朱成碧), “The Flower Throne” (鮮花寶座) and “Her Warfare” (蘇筱的戰爭) etc.

For variety shows, the romantic detective reality show developed and produced by the Group namely, “I Love You, Me Too” (喜歡你，我也是) has ended on 26 June 2019. With the good performance and network popularity of the first season, the Group is considering to produce the second season of “I Love You, Me Too” in order to create a self-developed multi-season variety show brand. In addition, the third season of “Give Me Five” (高能少年團), a proprietary variety brand will be continued to launch with two seasons broadcasted. “National Game Carnivals” (全民遊戲嘉年華), a new gaming variety show, is also under development.

The Group will continue to explore opportunities in relation to the development of the film, television and media industry leveraging its outstanding film production capabilities, especially cooperation opportunities derived from the upstream and downstream of the industry chain, with an aim to strengthen the Group’s income base. With the joining of these famous KOLs, the Group will develop its self-owned brand and gradually expand the scale of the film and television intellectual property (IP) derived products and e-commerce industry, so as to diversify its operation, enhancing its profitability and generating satisfactory returns for the shareholders of the Group.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 30 June 2019.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. The Company complied with all the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year ended 30 June 2019, except for the deviations as mentioned below.

Chairman and Chief Executive Officer

The Company has not yet adopted A.2.1 of the CG Code during the period from 1 July 2018 to 16 September 2018. Under the code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer (“CEO”) should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Zhang is the Chairman of the Board and is responsible for the overall strategic planning and policy-making of the Group while the daily operation and management of the Company have been monitored by the executive Directors as well as the senior management of the Group.

On 17 September 2018, the Company appointed Ms. Zhao Wenzhu as the President of the Company, serving the function of CEO. From then on, the roles of the Chairman and CEO are separated.

The Company has no written terms on the general division of responsibilities between the Chairman and the President. The Board considers that the responsibilities of the Chairman and the President are clear and distinctive and hence written terms thereof are not necessary.

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

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made all reasonable enquires, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 30 June 2019.

EVENTS AFTER REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into the following significant transactions:

1. After the reporting period, Guangzhou Daide entered into an equity transfer agreement with a group of third party sellers (the “Sellers”) and 聞瀾(上海)文化傳媒有限公司 (Wenlan (Shanghai) Culture Communication Co., Ltd.*) (the “Target Company”). Under the agreement, Guangzhou Daide conditionally agreed to acquire, and Chen Jie (the “Seller One”) and 上海艾播文化傳播有限公司 (Shanghai Aibo Culture Communication Co., Ltd.*) (the “Seller Three”) conditionally agreed to sell, the equity interest collectively hold by Seller One and Seller Three, representing 60% equity interest in the Target Company, at an aggregate consideration of RMB96,000,000 and 壽瑋達 (the “Seller Two”) and 上海薈喆企業管理中心(有限合夥)(Shanghai Yunzhe Enterprites Management Center Co., Ltd.*) (“Seller Four”) agreed to grant the call option to Guangzhou Daide for purchasing the remaining 40% equity interest in the Target Company.

On the same day, Guangzhou Daide, the Sellers and the Target Company also entered into a profit guarantee agreement, pursuant to which and subject to the completion of the acquisition, Seller Two and Seller Four undertake to Guangzhou Daide that the aggregated profit for the profit guarantee period shall be no less than RMB70,000,000.

Details of the acquisition are set out in the announcement of the Company dated 10 September 2019.

Up to the date of this announcement, the above transaction has not yet completed.

2. On 16 September 2019, the Company has entered into new placing agreement with the placing agent (the “Agent”) pursuant to which the Agent conditionally agreed to procure, on a best effort basis, placees who are independent third parties to the Group to subscribe in cash for the bonds (the “Bonds”) in an aggregate amount of up to HK\$150,000,000 with a maturity date of three years from the issue date. Based on the terms of the placing agreement, the Bonds are matured on the third anniversary of the date of the issue of the Bonds or any such other dates as mutually agreed in writing and shortened or extended by the Company and the Agent.

The Bonds will be issued in tranches and the Bonds are unsecured, unsubordinated and carried at fixed coupon rate of 6.5% per annum which are payable semi-annually from the date of issue of the Bonds.

AUDIT COMMITTEE

The Audit Committee (“Audit Committee”) has three members comprising three independent non-executive Directors, namely Mr. Chang Eric Jackson (Chairman of the Audit Committee), Mr. Wang Bo and Mr. Xiang Feng, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are mainly to communicate with external auditors; to review the remuneration, terms of engagement, independency and objectivity of the external auditors; to review the accounting policy, financial position and financial reporting procedures of the Company; and to review and assess the financial reporting, risk management and internal control systems of the Company and making recommendation thereof. The final results of the Group for the year ended 30 June 2019 have been reviewed by the Audit Committee and a meeting of the Audit Committee has been held with the Company’s auditor for reviewing the final results of the Group for the year ended 30 June 2019.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of profit or loss and other comprehensive income, and the related Notes thereto for the year ended 30 June 2019 as set out in this announcement have been agreed by the Company’s auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group’s draft consolidated financial statements for the year ended 30 June 2019. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on this announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (“AGM”) will be held on Friday, 22 November 2019 at 3: 00 p.m. The register of members of the Company will be closed from Tuesday, 19 November 2019 to Friday, 22 November 2019, both days inclusive. In order to ascertain shareholders’ eligibility to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4: 30 p.m. on Monday, 18 November 2019.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the websites of the Company (www.transmit-ent.com) and the Stock Exchange (www.hkexnews.hk). The Annual Report 2018/19 will be dispatched to the shareholders of the Company in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the Year. I would also like to express heartfelt gratitude to all of our customers and suppliers on behalf of the Group, and wish for their continuous supports in the future. We will keep working closely with our shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group’s development.

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

Hong Kong, 25 September 2019

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.