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H. BROTHERS ENTERTAINMENT

華誼騰訊娛樂

華誼騰訊娛樂有限公司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHT

	2020 HK\$'000	2019 HK\$'000	
Total revenue	111,055	99,326	+12%
Gross profit	50,866	39,011	+30%
Loss for the year excluding the provisions for impairment of right-of-use assets and interest in an associate	(19,718)	(28,770)	-31%
Loss for the year	<u>(56,574)</u>	<u>(28,770)</u>	+97%

- Revenue and gross profit for the year ended 31 December 2020 amounted to approximately HK\$111,055,000 (2019: HK\$99,326,000) and HK\$50,866,000 (2019: HK\$39,011,000) respectively, being a 12% and 30% increase respectively comparing to the prior year. Contributed by the successful release of epic movie “*Eight Hundred*” which has generated box office receipt of more than RMB3.1 billion in the PRC, revenue from the “Entertainment and Media” segment surged by 4 times to approximately HK\$13,780,000 (2019: HK\$2,736,000).
- Excluding the provisions for impairment of right-of-use assets and interest in an associate, loss for the year ended 31 December 2020 has been narrowed down by 31% to approximately HK\$19,718,000 (2019: HK\$28,770,000).
- “*Space Sweepers*”, Korean’s first space sci-fi film starring Song Jung-ki and Kim Tae-ri, has made its debut on Netflix in 190+ countries/regions on 5 February 2021. For two consecutive days it was the highest ranked movie globally on Netflix and received wide media coverage. “*Cherry*”, the first movie directed by the Russo Brothers since “*Avengers: Endgame*” and is starred by Tom Holland, was globally released on Apple TV+ on 12 March 2021. The relevant revenue for the distribution of these movies co-financed and co-produced by the Group will be recorded in the first half of year 2021.

The board of directors (the “Board”) of Huayi Tencent Entertainment Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue and film investment income	3	106,062	96,951
Interest revenue calculated using the effective interest method	3	4,993	2,375
		111,055	99,326
Cost of sales		(60,189)	(60,315)
Gross profit		50,866	39,011
Other income and other gains, net	3	9,890	936
Administrative expenses		(94,839)	(72,265)
		(34,083)	(32,318)
Finance income/(costs), net	5	1,172	(601)
Share of results of an associate	14	2,504	4,934
Provision for impairment of interest in an associate	14	(25,761)	–
Loss before taxation	6	(56,168)	(27,985)
Taxation	7	(406)	(785)
Loss for the year		(56,574)	(28,770)
Attributable to:			
Equity holders of the Company		(56,574)	(28,770)
Loss per share attributable to the equity holders of the Company for the year		HK Cents	HK Cents
Basic and diluted loss per share	8	(0.42)	(0.21)
		(0.42)	(0.21)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Loss for the year		<u>(56,574)</u>	<u>(28,770)</u>
Other comprehensive loss:			
Items that may be reclassified to profit or loss:			
– Currency translation differences		<u>(44)</u>	<u>(6,812)</u>
Other comprehensive loss for the year, net of tax		<u>(44)</u>	<u>(6,812)</u>
Total comprehensive loss for the year		<u><u>(56,618)</u></u>	<u><u>(35,582)</u></u>
Total comprehensive loss attributable to:			
Equity holders of the Company		<u><u>(56,618)</u></u>	<u><u>(35,582)</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment	10	1,765	3,736
Right-of-use assets	11	68,165	20,536
Film rights and films production in progress	12	363,524	252,750
Interest in an associate	14	263,297	278,250
Financial asset at fair value through profit or loss	15	474	4,112
Prepayments, deposits and other receivables	17	18,486	739
		<u>715,711</u>	<u>560,123</u>
Current assets			
Trade receivables	16	–	–
Programmes and films production in progress	13	44,832	75,874
Prepayments, deposits and other receivables	17	6,394	331,899
Pledged bank deposits	18	–	49,664
Cash and cash equivalents	19	113,837	198,248
		<u>165,063</u>	<u>655,685</u>
Total assets		<u>880,774</u>	<u>1,215,808</u>
Equity and liabilities			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	22	269,962	269,962
Reserves		<u>506,630</u>	<u>563,248</u>
Total equity		<u>776,592</u>	<u>833,210</u>

		As at 31 December	
		2020	2019
	Notes	HK\$'000	HK\$'000
Liabilities			
Non-current liabilities			
Lease liabilities	11	2,016	1,916
Deferred income tax liabilities		1,542	1,039
		3,558	2,955
Current liabilities			
Lease liabilities	11	65,733	2,421
Other payables and accrued liabilities	21	34,891	11,540
Bank and other borrowings	20	–	365,682
		100,624	379,643
Total liabilities		104,182	382,598
Total equity and liabilities		880,774	1,215,808

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
Cash used in operations		(71,442)	(209,440)
Interest received from programmes and films production in progress		2,512	–
Interest paid		(1,478)	(25)
Net cash used in operating activities		(70,408)	(209,465)
Cash flows from investing activities			
Bank interest received		1,342	5,173
Purchases of property, plant and equipment		(1,379)	(932)
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of		–	56,951
Prepayment for an equity investment		(17,267)	–
Net cash (used in)/generated from investing activities		(17,304)	61,192
Cash flow from financing activities			
(Repayment of)/proceeds from bank and other borrowings		(45,009)	368,950
Increase in pledged deposits		–	(331,261)
Decrease/(increase) in pledged bank deposits		49,664	(49,664)
Principal elements of lease payments		(2,716)	(558)
Net cash generated from/(used in) financing activities		1,939	(12,533)
Net decrease in cash and cash equivalents		(85,773)	(160,806)
Cash and cash equivalents at 1 January		198,248	362,490
Currency translation differences		1,362	(3,436)
Cash and cash equivalents at 31 December	19	113,837	198,248

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the Company			Total equity HK\$'000
	Share capital	Other reserves	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2019	269,962	2,068,007	(1,469,177)	868,792
Comprehensive income:				
– Loss for the year	–	–	(28,770)	(28,770)
Other comprehensive (loss)/income:				
Currency translation differences				
– Group	–	(5,125)	–	(5,125)
– Associate (Note 14)	–	(2,666)	–	(2,666)
– Recycling upon deregistration of a subsidiary	–	979	–	979
Total comprehensive loss	–	(6,812)	(28,770)	(35,582)
Balance at 31 December 2019	269,962	2,061,195	(1,497,947)	833,210

	Attributable to equity holders of the Company			Total equity HK\$'000
	Share capital	Other reserves	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2020	269,962	2,061,195	(1,497,947)	833,210
Comprehensive loss:				
– Loss for the year	–	–	(56,574)	(56,574)
Other comprehensive (loss)/income:				
Currency translation differences				
– Group	–	(8,348)	–	(8,348)
– Associate (Note 14)	–	8,304	–	8,304
Total comprehensive loss	–	(44)	(56,574)	(56,618)
Balance at 31 December 2020	269,962	2,061,151	(1,554,521)	776,592

Notes:

1. GENERAL INFORMATION

Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (together, the “Group”) is principally engaged in (i) entertainment and media business and (ii) provision of healthcare and wellness services.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (“SEHK”).

The consolidated financial statements are presented in thousand Hong Kong dollars (HK\$’000), unless otherwise stated. This results announcement has been approved for issue by the Board of Directors on 25 March 2021.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at fair values.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New standards, amendments and interpretation adopted by the Group

The Group has applied the following standards, amendments and interpretation for the first time for their annual reporting period commencing 1 January 2020:

HKFRS 3	Definition of a Business (amendments)
HKAS 1 and HKAS 8	Definition of Material (amendments)
HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting (amendments)
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

These standards did not have any material impact on the Group’s accounting policies and did not require retrospective adjustments.

(b) New standards, amendments and conceptual framework not yet adopted by the Group

A number of new standards, interpretations and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group in preparing these consolidated financial statements.

		Effective for annual periods beginning on
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2(amendments)	1 January 2021
Annual Improvements Project	Annual Improvements to HKFRSs 2018–2020 (amendments)	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments (amendments)	1 January 2022
HKFRS 16	Covid-19-Related Rent Concessions (amendments)	1 June 2020
AG 5(revised)	Revised Accounting Guideline 5 <i>Merger Accounting for Common Control Combinations</i>	1 January 2022
HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2023
HKFRS 17	Insurance Contracts (new standard)	1 January 2023
HKFRS 17	Amendments to HKFRS 17	1 January 2023
HK Int 5 (2020)	Hong Kong Interpretation 5(2020) Presentation of Financial Statements — <i>Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> (HK Int 5(2020))	1 January 2023
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, management does not anticipate any significant impact on the Group's financial positions and results of operations.

3. REVENUE AND FILM INVESTMENT INCOME, INTEREST REVENUE CALCULATED USING THE EFFECTIVE INTEREST METHOD AND OTHER INCOME AND OTHER GAINS/(LOSSES), NET

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of healthcare and wellness services.

	2020	2019
	HK\$'000	HK\$'000
<hr/>		
Revenue		
Entertainment and media		
– Sub-licensing of film and TV programmes rights	610	361
Healthcare and wellness services		
– Club activities income	53,096	50,605
– Membership fees	31,515	31,809
– Food and beverage	12,664	14,176
	97,885	96,951
Film investment income (Entertainment and media)	8,177	–
Revenue and film investment income	106,062	96,951
Interest revenue calculated using the effective interest method (Entertainment and media)	4,993	2,375
	111,055	99,326
Other income and other gains, net		
Interest income	1,342	5,173
Fair value gain/(loss) on financial assets at fair value through profit or loss, net	318	(1,861)
Loss on deregistration of a subsidiary	–	(979)
Gain on modification of lease	2,297	–
Exchange gain/(losses), net	5,289	(1,968)
Others	644	571
	9,890	936

4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the chief executive officer and the chief financial officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organized into two main operating segments: (i) Entertainment and media businesses and (ii) Healthcare and wellness services. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from loss before taxation, excluding exchange gain/(losses), net, finance income/(costs), net, loss on deregistration of a subsidiary and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, depreciation of right-of-use assets in relation to office and apartment and other administrative expenses which are not attributable to particular reportable segment.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets which are managed on a group basis. Segment liabilities exclude income tax liabilities and other unallocated head office and corporate liabilities which are managed on a group basis.

There were no sales between the operating segments during the year ended 31 December 2020 (2019: Nil).

(a) **Business segment**

For the year ended 31 December 2020

	Entertainment and Media HK\$'000	Healthcare and Wellness Services HK\$'000	Total HK\$'000
Revenue and film investment income	8,787	97,275	106,062
Interest revenue calculated using the effective interest method	4,993	–	4,993
	<u>13,780</u>	<u>97,275</u>	<u>111,055</u>
Share of results of an associate	2,504	–	2,504
Segment results	<u>(13,213)</u>	<u>(26,242)</u>	(39,455)
Exchange gains, net			5,289
Unallocated expenses, net			<u>(23,174)</u>
			(57,340)
Finance income, net			<u>1,172</u>
Loss before taxation			(56,168)
Taxation			<u>(406)</u>
Loss for the year and attributable to the equity holders of the Company			<u>(56,574)</u>

	Entertainment and Media HK\$'000	Healthcare and Wellness Services HK\$'000	Total HK\$'000
Segment assets	672,865	84,617	757,482
Unallocated assets			<u>123,292</u>
Total assets			<u><u>880,774</u></u>
Segment liabilities	9,762	70,228	79,990
Unallocated liabilities			<u>24,192</u>
Total liabilities			<u><u>104,182</u></u>
Other information:			
Addition of right-of-use assets			
– Allocated	–	131,297	131,297
– Unallocated			4,561
Purchases of property, plant and equipment			
– Allocated	–	1,364	1,364
– Unallocated			15
Addition of film rights and films production in progress	105,676	–	105,676
Depreciation of right-of-use assets			
– Allocated	–	25,018	25,018
– Unallocated			2,546
Depreciation of property, plant and equipment			
– Allocated	–	3,169	3,169
– Unallocated			347
Reversal of impairment of programmes and films production in progress	(137)	–	(137)
Provision for impairment of film rights and films production in progress	1,138	–	1,138
Provision for impairment of right-of-use assets	–	11,095	11,095
Provision for impairment of interest in an associate	<u>25,761</u>	<u>–</u>	<u>25,761</u>

For the year ended 31 December 2019

	Entertainment and Media HK\$'000	Healthcare and Wellness Services HK\$'000	Total HK\$'000
Revenue and film investment income	361	96,590	96,951
Interest revenue calculated using the effective interest method	<u>2,375</u>	–	<u>2,375</u>
	<u>2,736</u>	96,590	<u>99,326</u>
Share of results of an associate	4,934	–	4,934
Segment results	<u>5,476</u>	<u>(12,132)</u>	(6,656)
Exchange losses, net			(1,968)
Unallocated expenses, net			(17,781)
Loss on deregistration of a subsidiary			<u>(979)</u>
			(27,384)
Finance costs, net			<u>(601)</u>
Loss before taxation			(27,985)
Taxation			<u>(785)</u>
Loss for the year and attributable to the equity holders of the Company			<u><u>(28,770)</u></u>

	Entertainment and Media HK\$'000	Healthcare and Wellness Services HK\$'000	Total HK\$'000
Segment assets	660,650	19,259	679,909
Unallocated assets			<u>535,899</u>
Total assets			<u><u>1,215,808</u></u>
Segment liabilities	45,708	5,188	50,896
Unallocated liabilities			<u>331,702</u>
Total liabilities			<u><u>382,598</u></u>
Other information:			
Purchases of property, plant and equipment			
– Allocated	–	916	916
– Unallocated			16
Purchase of film rights and films production in progress	123,321	–	123,321
Purchase of programmes and films production in progress	74,128	–	74,128
Depreciation of property, plant and equipment			
– Allocated	–	2,460	2,460
– Unallocated			908
Depreciation of right-of-use assets			
– Allocated	–	21,600	21,600
– Unallocated			559
Impairment of programmes and films production in progress	333	–	333

(b) Geographical information

The geographical information for the year ended 31 December 2020 and 2019 are as follows:

	Revenue from external		Non-current assets ^{Note}	
	customers			
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	104,957	97,744	108,955	48,233
Hong Kong	–	–	6,362	4,353
Other countries	6,098	1,582	318,137	224,436
	111,055	99,326	433,454	277,022

Note: Non-current assets exclude interest in an associate, financial asset at fair value through profit or loss, and non-current portion of prepayment, deposits and other receivables. The portion of film rights and films production in progress subject to global circulation is included in other countries.

5. FINANCE COSTS, NET

	2020	2019
	HK\$'000	HK\$'000
Finance cost		
Imputed finance cost on discounting pledged deposits paid	–	(6,148)
Imputed finance cost on unwinding of discounted other borrowings	(2,774)	(3,313)
Interest on bank borrowings	(1,478)	(546)
Interest on lease liabilities (Note 11)	(3,644)	(25)
	(7,896)	(10,032)
Finance income		
Imputed finance income on discounting other borrowings	–	6,086
Imputed finance income on unwinding of discounted pledged deposits paid	2,746	3,345
Realized exchange gain related to settlement of other borrowings	6,322	–
	9,068	9,431
Finance income/(costs), net	1,172	(601)

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging/(crediting) the following:

	2020 HK\$'000	2019 HK\$'000
Depreciation of property, plant and equipment (Note 10)	3,516	3,368
Depreciation of right-of-use assets (Note 11)	27,564	22,159
Auditor's remuneration		
– Audit services	2,100	2,100
– Non-audit services	3,766	1,535
Operating lease rentals (Note 11)	97	1,773
Provision for/(reversal of) impairment of		
– Right-of-use assets (Note 11)	11,095	–
– Interest in an associate (Note 14)	25,761	–
– Film rights and films production in progress (Note 12)	1,138	–
– Programmes and films production in progress (Note 13)	(137)	333
Food and beverage costs in relation to “Bayhood No. 9 Club” operation	7,359	7,174
Surcharge and interest in relation to “Bayhood No. 9 Club” operation	8,137	–
Labour costs in relation to “Bayhood No. 9 Club” operation	35,259	41,039
Employee benefit expense:		
<i>Directors' fees</i>	720	600
<i>Wages and salaries</i>	16,505	13,430
<i>Contributions to defined contribution pension schemes</i>	1,230	1,581
	18,455	15,611

7. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2019: Same). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

	2020 HK\$'000	2019 HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– PRC corporate income tax	–	–
Deferred income tax	406	785
Income tax expense	406	785

8. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Weighted average number of ordinary shares in issue (thousands)	<u>13,498,107</u>	<u>13,498,107</u>
Loss attributable to equity holders of the Company (HK\$'000)	<u>(56,574)</u>	<u>(28,770)</u>
Basic loss per share attributable to equity holders of the Company (HK cents per share)	<u>(0.42)</u>	<u>(0.21)</u>

Diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares for the year ended 31 December 2020 (2019: Same).

9. DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$'000	Machinery and equipment HK\$'000	Furniture, computer and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2019						
Opening net book amount	445	1,496	1,162	541	2,632	6,276
Additions	–	281	423	–	228	932
Depreciation	(224)	(791)	(597)	(541)	(1,215)	(3,368)
Exchange differences	(7)	(26)	(25)	–	(46)	(104)
Closing net book amount	214	960	963	–	1,599	3,736
At 31 December 2019						
Cost	896	2,268	3,307	1,945	5,124	13,540
Accumulated depreciation	(682)	(1,308)	(2,344)	(1,945)	(3,525)	(9,804)
Net book amount	214	960	963	–	1,599	3,736
Year ended 31 December 2020						
Opening net book amount	214	960	963	–	1,599	3,736
Additions	–	542	807	–	30	1,379
Disposal	–	–	(3)	–	(1)	(4)
Depreciation	(221)	(1,039)	(890)	–	(1,366)	(3,516)
Exchange differences	7	45	58	–	60	170
Closing net book amount	–	508	935	–	322	1,765
At 31 December 2020						
Cost	954	2,970	4,302	1,945	5,479	15,650
Accumulated depreciation	(954)	(2,462)	(3,367)	(1,945)	(5,157)	(13,885)
Net book amount	–	508	935	–	322	1,765

Depreciation expenses of approximately HK\$3,516,000 (2019: HK\$3,368,000) have been charged in administrative expenses.

11. LEASES

(i) Amounts recognized in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	2020 HK\$'000	2019 HK\$'000
Right-of-use assets		
Office	1,889	4,336
Operating assets of “Bayhood No. 9 Club”	61,814	16,200
Apartment	4,462	–
	<u>68,165</u>	<u>20,536</u>
Lease liabilities		
Current	65,733	2,421
Non-current	2,016	1,916
	<u>67,749</u>	<u>4,337</u>

Additions to the right-of-use assets during the year ended 31 December 2020 were HK\$135,858,000 (2019: HK\$4,895,000).

On 28 December 2020, the Group had entered into a lease modification arrangement with the lessor regarding the operating assets of “Bayhood No. 9 Club”. The lease term was shortened from 5 years to 3 years. The right-of-use asset and the lease liability related to the lease was reduced by HK\$51,717,000 and HK\$54,014,000 respectively during the year ended 31 December 2020. Gain from modification of lease of HK\$2,297,000 was recognized in “Other income and other gains, net” for the year ended 31 December 2020.

(ii) Amounts recognized in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Notes	2020 HK\$'000	2019 HK\$'000
Depreciation charge of right-of-use assets			
Office		2,448	559
Operating assets of "Bayhood No. 9 Club"		25,018	21,600
Apartment		98	–
	6	<u>27,564</u>	<u>22,159</u>
Interest expense (included in finance costs)	5	3,644	25
Expense relating to short-term leases (included in administrative expenses)	6	97	1,773
Provision for impairment (Note a)	6	11,095	–

Note a: Management has conducted an impairment analysis over the recoverable amount of the right-of-use asset over operating assets of "Bayhood No. 9 Club". The recoverable amount has been determined by value-in-use calculation. The calculation uses cash flow projection based on financial budget approved by management.

Management determined the compound annual growth rate of revenue in three-year period, which is the length of the lease term, based on past performance, industry forecast and the overall economic environment. The discount rate used reflected specific risks relating to this cash-generating unit.

Key assumptions adopted in value-in-use were as follows:

	As at 31 December 2020
Compound annual growth rate of revenue in three-year period	2%
Pre-tax discount rate	20%

Based on the result of the impairment assessment, a provision for impairment of HK\$11,095,000 of right-of-use asset over operating assets of "Bayhood No. 9 Club" was charged to administrative expenses during the year ended 31 December 2020, mainly due to the uncertainty of the expected future cash flows from "Bayhood No.9 Club" following the outbreak of COVID-19 pandemic.

(iii) The Group’s leasing activities and how these are accounted for

The Group leases various offices and certain operating assets of “Bayhood No. 9 Club”. Rental contracts are generally made for fixed periods of 2 to 3 years, but may have extension options as described in Note 11(iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(iv) Extension and termination options

Extension and termination options are included in the lease held by the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group’s operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

12. FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

	2020	2019
	HK\$’000	HK\$’000
Completed film rights (Note a)	–	1,149
Films production in progress (Note a)	341,217	234,856
Film rights investments (Note b)	22,307	16,745
	363,524	252,750

	Completed	Films	Film rights	Total
	film rights	production	investments	Total
	HK\$’000	in progress	HK\$’000	HK\$’000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Year ended 31 December 2019				
Opening net book amount	1,175	128,353	–	129,528
Additions	–	106,391	16,930	123,321
Exchange difference	(26)	112	(185)	(99)
Closing net book amount	1,149	234,856	16,745	252,750

	Completed film rights HK\$'000	Films production in progress HK\$'000	Film rights investments HK\$'000	Total HK\$'000
Year ended 31 December 2020				
Opening net book amount	1,149	234,856	16,745	252,750
Additions	–	105,676	–	105,676
Fair value change	–	–	4,218	4,218
Impairment	(1,138)	–	–	(1,138)
Exchange difference	(11)	685	1,344	2,018
Closing net book amount	–	341,217	22,307	363,524

Note (a):

As at 31 December 2020, the total cost of completed film rights amounting to approximately HK\$125,899,000 (2019: HK\$125,910,000) and accumulated amortization and impairment amounting to approximately HK\$125,899,000 (2019: HK\$124,761,000).

No amortization of completed film rights has been charged to the cost of sales in the consolidated income statement during the year ended 31 December 2020 (2019: Nil).

For the year ended 31 December 2020, impairment of HK\$1,138,000 (2019: Nil) on completed film rights was recognized by using the latest available information and best estimate from the management and has been charged to cost of sales.

The Group has entered into several joint operation arrangements to produce or distribute up to ten (2019: ten) films. The Group has participating interests ranging from 14.6% to 50% (2019: 7.5% to 50%) in these joint operations. As at 31 December 2020, the aggregate amounts of assets recognized in the consolidated balance sheet relating to the Group's interests in these joint operation arrangements are the completed film rights and films production in progress totalling HK\$341,217,000 (2019: HK\$236,005,000).

For the year ended 31 December 2020, the Group has entered into certain licensing agreements for certain films production in progress of approximately HK\$123,806,000 with expected circulation timetables in 2021.

Note (b):

The balance represented the Group's investments in films productions which entitled the Group to predetermined percentage of income to be generated from the films based on the Group's investment portion as specified in the film rights investment agreements.

13. PROGRAMMES AND FILMS PRODUCTION IN PROGRESS

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Programmes and films production in progress	45,030	76,205
Less: Loss allowance	(198)	(331)
	<u>44,832</u>	<u>75,874</u>

Movements in the programmes and films production in progress are as follows:

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
At 1 January	75,874	–
Additions	–	74,128
Interest receivable	5,008	2,391
Receipt of investment capital and interest	(38,084)	–
Decrease/(increase) in loss allowance	137	(333)
Exchange difference	1,897	(312)
At 31 December	<u>44,832</u>	<u>75,874</u>

Programmes and films production in progress are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 31 December 2020, the average effective interest rate for the outstanding balance was 6.99% (2019: 7.06%).

The carrying amounts of programmes and films production in progress of the Group are denominated in the following currencies:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	30,075	47,593
RMB	14,757	28,281
	44,832	75,874

The carrying amounts of programmes and films production in progress approximate their fair values.

The maximum exposure to credit risk at the balance sheet date is the carrying value of programmes and films production in progress disclosed above.

14. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2020 which, in the opinion of the directors, is material to the Group. The associate is a private company and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interest in the associate, and there are no contingent liabilities of the associate itself.

Details of interest in an associate as at 31 December 2020 and 2019 are as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2020	2019	
HB Entertainment Co., Ltd. ("HB Entertainment")	South Korea, limited liability company	31%	31%	Production of and investments in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea

Summarized financial information for material associate

Set out below is the summarized financial information of HB Entertainment which is material to the Group. The entity is accounted for using the equity method.

Summarized balance sheet

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Current		
Cash and cash equivalents	141,585	107,197
Other current assets (excluding cash)	101,281	58,899
Total current assets	<u>242,866</u>	<u>166,096</u>
Current financial liabilities (excluding trade payables)	(9,546)	(8,246)
Other current financial liabilities	(72,650)	(65,536)
Total current liabilities	<u>(82,196)</u>	<u>(73,782)</u>
Non-current		
Total non-current assets	<u>84,785</u>	<u>131,382</u>
Total non-current liabilities	<u>(12,176)</u>	<u>(8,754)</u>
Net assets	<u>233,279</u>	<u>214,942</u>
Non-controlling interest	<u>5,723</u>	<u>1,938</u>
Net assets attributable to the equity holders	<u>239,002</u>	<u>216,880</u>

Summarized statement of comprehensive income

	2020	2019
	HK\$'000	HK\$'000
Revenue	148,787	272,155
Profit before taxation	10,341	17,292
Taxation	(2,161)	(1,257)
Profit after taxation	8,180	16,035
Other comprehensive income/(loss)	13,942	(8,710)
Total comprehensive income	22,122	7,325

The information above reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments (if any) made by the entity when using the equity method.

Movements of interest in an associate are as follows:

	2020	2019
	HK\$'000	HK\$'000
Interest in an associate		
At 1 January	278,250	275,982
Share of results	2,504	4,934
Provision for impairment	(25,761)	–
Exchange differences	8,304	(2,666)
At 31 December	263,297	278,250

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in an associate

	2020 HK\$'000	2019 HK\$'000
Summarized financial information		
Opening net assets as at 1 January	216,880	209,555
Profit for the year	8,180	16,035
Exchange differences	13,942	(8,710)
Closing net assets as at 31 December	<u>239,002</u>	<u>216,880</u>
Interest in an associate	73,526	66,734
Goodwill	<u>189,771</u>	<u>211,516</u>
Carrying value	<u>263,297</u>	<u>278,250</u>

Impairment assessment for the interest in an associate

Recoverable amount was determined by the higher of the amount determined by value-in-use calculation or by fair value less costs of disposal.

The recoverable amount as at 31 December 2020 was determined by fair value less costs of disposal. Management determined the average enterprise value-to-revenue ratio based on a pool of comparable listed companies within the same industry.

The recoverable amount as at 31 December 2019 was determined by value-in-use calculation of present value of expected future cash flows. Management determined the compound annual growth rate of revenue in five-year period and annual growth rate beyond the five-year period based on past performance, industry forecast and its budget of market development. The discount rate used reflected specific risks relating to this cash-generating unit.

Key assumptions adopted in the calculation of recoverable amount were as follows:

	As at 31 December 2020
Unobservable inputs adopted in fair value less costs of disposal calculation	
Average enterprise value-to-revenue ratio	4.3
Discounts for lack of marketability	25%
Significant influence premium	<u>15%</u>

	As at 31 December 2019
Unobservable inputs adopted in value-in-use calculation	
Compound annual growth rate of revenue in five-year period	21.5%
Annual growth rate beyond the five-year period	3.5%
Pre-tax discount rate	<u>20.5%</u>

Unobservable inputs adopted in value-in-use calculation

Compound annual growth rate of revenue in five-year period	21.5%
Annual growth rate beyond the five-year period	3.5%
Pre-tax discount rate	<u>20.5%</u>

Provision for impairment of HK\$25,761,000 of interest in HB Entertainment has been recognized for the year ended 31 December 2020 (2019: Nil), mainly due to deterioration and uncertainty of expected future cash flows from HB Entertainment which is affected by the delay in filming and production of project as a result of COVID-19 pandemic.

15. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Unlisted securities		
Huayi-Warner Contents Fund	<u>474</u>	<u>4,112</u>

Financial asset at fair value through profit or loss includes interests in Huayi-Warner Contents Fund, which are unlisted securities. On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of South Korean Won (“KRW”) 1 billion (equivalent to approximately HK\$6.8 million) for the establishment of Huayi-Warner Contents Fund. As at 31 December 2020, it represented 11% (2019: 11%) of the total capital contribution to the fund. The Fund’s capital shall be invested in film projects that are produced and distributed by Warner Bros. Korea Inc.

During the year ended 31 December 2020, all partners of Huayi-Warner Contents Fund, including the Group, have mutually agreed to proceed for voluntary liquidation of the fund following Warner Bros. Korea Inc.'s decision to exit the film production market of Korea. The Group has received KRW560,000,000 (equivalent to HK\$3,956,000) for its share of invested capital returned from the fund during the year ended 31 December 2020.

The balances are denominated in following currency:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
KRW	474	4,112

The maximum exposure to credit risk at the year-end is the carrying value.

During the year ended 31 December 2020, the net fair value gain of HK\$318,000 (2019: net fair value loss of approximately HK\$1,861,000) was recognized in the consolidated income statement.

16. TRADE RECEIVABLES

The aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Over 1 year (Note)	8,274	8,310
Loss allowance	<u>(8,274)</u>	<u>(8,310)</u>
	<u>—</u>	<u>—</u>

Note: The difference between the balances as at 31 December 2020 and 31 December 2019 represented the exchange realignment.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Movements on the Group's loss allowance for trade receivables are as follows:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
At 1 January	8,310	8,373
Exchange differences	(36)	(63)
At 31 December	<u>8,274</u>	<u>8,310</u>

Amounts charged to the loss allowance account are generally written off, when there is no expectation of recovering additional cash.

As at 31 December 2020, the carrying amounts of trade receivables approximate their fair values and are denominated in US\$ (2019: US\$).

The maximum exposure to credit risk at the balance sheet date is the carrying value of trade receivables disclosed above. The Group does not hold any collateral as security.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Prepayments	19,255	20,531
Deposits and other receivables (Note a and b)	<u>28,722</u>	<u>335,305</u>
	47,977	355,836
Less: provision for impairment of prepayments and other receivables (Note c)	<u>(23,097)</u>	<u>(23,198)</u>
	24,880	332,638
Less: non-current portion	<u>(18,486)</u>	<u>(739)</u>
	<u>6,394</u>	<u>331,899</u>

Note (a): As at 31 December 2019, the amounts included the pledged deposits of approximately HK\$320,960,000 which were used to secure the other borrowings of approximately HK\$321,029,000. During the year ended 31 December 2020, the aforesaid pledged deposits had been used to settle the amount of other borrowings. For details, please refer to Note 20.

Note (b): During the year ended 31 December 2020, the Group has entered into a modification of the lease of operating assets of “Bayhood No. 9 Club”. Pursuant to the arrangement, other deposits of approximately HK\$21,056,000 has been used to settle part of the lease liabilities.

Note (c): The difference between the balance as at 31 December 2020 and 2019 represented the exchange realignment.

The carrying amounts of prepayments, deposits and other receivables of the Group are denominated in the following currencies:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	3,088	11,329
RMB	21,792	321,309
	<u>24,880</u>	<u>332,638</u>

The carrying amounts of deposits and other receivables approximate their fair values. For the year ended 31 December 2020, no provision for impairment has been charged to the consolidated income statement (2019: Nil).

The maximum exposure to credit risk at the balance sheet date is the carrying value of deposits and other receivables disclosed above.

18. PLEDGED BANK DEPOSITS

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Pledged bank deposits	<u>–</u>	<u>49,664</u>

There was no pledged bank deposits as at 31 December 2020. As at 31 December 2019, the deposits of approximately HK\$49,664,000 with a bank were to secure the utilized portion of RMB100,000,000 banking facilities granted to the Group of RMB40,000,000 (equivalent to approximately HK\$44,653,000). The pledged bank deposits was released as the bank borrowings was fully repaid on 30 July 2020.

The carrying amounts of pledged bank deposits approximate their fair values and are denominated in HK\$.

19. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Cash and bank balances	113,837	198,248
Denominated in:		
HK\$	69,144	176,754
RMB	24,935	20,054
US\$	19,758	1,440
	113,837	198,248
Maximum exposure to credit risk	113,777	198,232

The Group's cash and bank balances of approximately HK\$24,921,000 and HK\$20,037,000 as at 31 December 2020 and 2019, respectively, were denominated in RMB and held in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

20. BANK AND OTHER BORROWINGS

Bank and other borrowings

The borrowings of the Group comprise:

	2020 HK\$'000	2019 HK\$'000
Current		
Bank borrowings	–	44,653
Other borrowings (Note i)	–	321,029
	<u>–</u>	<u>365,682</u>
Secured:		
Bank borrowings	–	44,653
Other borrowings (Note i)	–	321,029
	<u>–</u>	<u>365,682</u>

Note i: As at 31 December 2019, the amounts included borrowings provided by non-financial institutions, with a total amount of approximately HK\$321,029,000. The borrowings were interest-free, repayable in 12 months from the balance sheet date and were secured by deposits of RMB287,516,000 (equivalent to approximately HK\$320,960,000) denominated in RMB.

During the year ended 31 December 2020, the borrowings were fully settled.

As at the date of drawdown, the imputed interest represented the differences between the fair value and the principal amount of the borrowings amounting to approximately HK\$6,086,000 which was recognized in “Finance income” in the consolidated income statement for the year ended 31 December 2019 and was unwind over the loan period which was recognized in “Finance cost”. During the year ended 31 December 2020, the finance cost of approximately HK\$2,774,000 (2019: HK\$3,313,000) was charged in the consolidated income statement.

At 31 December 2020 and 2019, the Group’s borrowings were repayable as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year (Note ii)	<u>–</u>	<u>365,682</u>

Note ii: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	–	321,029
RMB	–	44,653
	–	365,682

The borrowings of approximately HK\$44,653,000 as at 31 December 2019 were borrowed from a bank in the PRC by a subsidiary of the Group that are incorporated or established in the PRC. The borrowings was fully repaid on 30 July 2020.

The effective interest rates at the consolidated balance sheet date are as follows:

	As at 31 December 2020		As at 31 December 2019	
	HK\$	RMB	HK\$	RMB
Bank borrowings	N/A	N/A	N/A	5.45%
Other borrowings	N/A	N/A	1.75%	N/A

The carrying amount of the assets of the Group pledged to secure its borrowings are as follows:

	2020	2019
	HK\$	HK\$
Pledged bank deposits	–	49,664
Pledged deposits	–	320,960
	–	370,624

21. OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Current liabilities:		
Other payables and accrued liabilities (Note i)	26,709	11,540
Film investment fund received, net (Note ii)	8,182	–
	<u>34,891</u>	<u>11,540</u>

Notes:

- (i) Other payables and accrued liabilities mainly represented accrued operating expenses and PRC other tax payables.
- (ii) The amounts represented film investment fund received from Huayi Brothers International Limited (“HBI”), a substantial shareholder of the Group, in respect of a film production in progress of the Group. In accordance with the terms of the investment agreement, HBI is entitled to recoup its investment amounts as appropriate by the predetermined percentage of income to be generated from the distribution of that film production in progress. The financial liabilities were subsequently measured at amortized cost after initial recognition.

The carrying amounts of other payables and accrued liabilities approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	8,236	2,555
RMB	18,473	8,985
KRW	8,182	–
	<u>34,891</u>	<u>11,540</u>

22. SHARE CAPITAL

	Ordinary shares of HK\$0.02 each		Preference shares of HK\$0.01 each		
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	HK\$'000
Authorized:					
At 31 December 2019 and 31 December 2020 (Note a)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2019 and 1 January 2020	13,498,107	269,962	–	–	269,962
At 31 December 2019 and 31 December 2020	13,498,107	269,962	–	–	269,962

Notes:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 (2019: 150,000,000,000) shares are ordinary shares with par value of HK\$0.02 (2019: HK\$0.02) per share. 240,760,000 (2019: 240,760,000) shares are preference shares with par value of HK\$0.01 per share (2019: HK\$0.01). All issued shares are fully paid.

Share option

Pursuant to a resolution passed on the extraordinary general meeting of the Company dated 4 June 2012, the share option scheme adopted by the Company on 30 July 2002 (“Terminated Option Scheme”) has been terminated and the Company has adopted a new 10-year term share option scheme (“New Option Scheme”) on the same date. Pursuant to the New Option Scheme, the Company can grant options to Qualified Persons (as defined in the New Option Scheme) for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to said resolution passed on 22 April 2016, the Company can grant up to 1,349,810,657 share options to the Qualified Persons.

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in SEHK's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the SEHK's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the year ended 31 December 2020, no share option has been granted under the New Option Scheme (2019: Nil) and no share-based payment expense has been charged to the consolidated income statement (2019: Nil).

During the year ended 31 December 2020, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding share option as at 31 December 2020 (2019: Same).

23. COMMITMENTS

Investment commitments

As at 31 December 2020, total investment commitments are analyzed as follows:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Not later than one year	<u>17,055</u>	<u>29,587</u>
	<u>17,055</u>	<u>29,587</u>

24 RELATED PARTY TRANSACTIONS

(a) Related party transactions

Save as disclosed elsewhere in these consolidated financial statement, the Group had the following related party transactions:

Name of party	Nature of transaction	31 December	31 December
		2020	2019
		HK\$'000	HK\$'000
華誼兄弟電影有限公司 ("Huayi Brothers Film Co., Ltd")* (Note)	Interest revenue calculated using effective interest method	2,277	486
華誼兄弟(天津)品牌管理有限公司 ("Huayi Brothers (Tianjin) Branding Management Co., Ltd")* (Note)	Film and TV programmes exhibition	610	–
Huayi Brothers International Limited ("HBI") (Note)	Film investment income	3,959	–
		<u>6,846</u>	<u>486</u>

* English name is made for identification purpose only.

Note: Huayi Brothers Film Co., Ltd and Huayi Brothers (Tianjin) Branding Management Co., Ltd are the subsidiaries of Huayi Brothers Media Corporation, a substantial shareholder of the Company. The above transactions were conducted in the normal course of business of the Group and charged at terms mutually agreed by the parties concerned.

On 2 May 2019, the Company and HBI, a substantial shareholder of the Company, entered into a cooperation framework agreement, pursuant to which the parties have agreed to cooperate in (i) investing in and carrying out media and entertainment projects; and (ii) engaging HBI or its associated company to provide distribution services for certain media and entertainment projects which the Group owns or has acquired the distribution rights in the PRC. For details, please refer to the Company's circular dated 4 June 2019. Pursuant to the above cooperation framework agreement, the Group has entered into agreements for the investing in and carrying out media and entertainment projects with HBI or its associated company of approximately HK\$101,538,000 (2019: HK\$117,634,000) during the year ended 31 December 2020.

(b) Related party balances

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Film rights and films production in progress		
– HBI	139,361	34,963
– Huayi Brothers Film Co., Ltd	22,307	16,745
– WR Brothers Inc. (Note)	48,451	49,094
Programmes and films production in progress		
– Huayi Brothers Film Co., Ltd	14,757	28,281
	224,876	129,083

Note: WR Brothers Inc. is the subsidiary of Huayi Brothers Media Corporation, a substantial shareholder of the Company.

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2020.

Global economy was dealt a severe blow in 2020 by the COVID-19 pandemic. The entire offline entertainment industry was no exception and, at one point, the film industry went into hibernation. While the global box office receipts in 2020 had nosedived by 71% from the previous year to around US\$12.4 billion, the PRC box office performance was able to become the best around the globe (standing at RMB20.417 billion, equivalent to approximately US\$3.1 billion) as the pandemic in the country was gradually brought under control. In fact, ever since the film industry in the PRC resumed its operation since July 2020, the growth of cinemas and screens has more than recovered the lost ground (growing by 4.4% to 11,856 and by 8.3% to 75,581 respectively), manifesting the success of the industry after a year-long baptism of fire. Amongst the films released last year, “*Eight Hundred*”, in which the Group has co-invested, topped the box office with proceeds of RMB3.11 billion since its release in August 2020 and stands at 11th highest-grossing film of all time. It demonstrates the Group’s ability in reacting to the audience’s change in taste, selecting the right genres of films, making breakthroughs and dictating the market trend successfully through outstanding content. The ground for steady recovery of the industry has also been laid down by the strong performance of the box office during the lunar new year: the total receipts from the beginning of 2021 to 15 February 2021 reached new heights and surpassed the mark of RMB6 billion (RMB5.8 billion in 2019).

During the year under review, apart from the successful theatrical release of “*Eight Hundred*”, a war and history film with rave reviews, the Group has also optimized its footprint in the industry by cooperating with media streaming platforms in order that the worldwide audience may still enjoy its top-notch media productions during the pandemic. “*Space Sweepers*” and “*Cherry*”, the two films which have been invested and co-produced by the Group, have had their worldwide distribution rights (excluding the PRC) acquired by Netflix and Apple TV+ respectively. “*Space Sweepers*”, which made its global debut on 5 February 2021 on Netflix, has become the talk of the town and also the most watched film on Netflix in 26 regions, whilst “*Cherry*” has also been premiered universally on Apple TV+ on 12 March 2021. On the other hand, the filming of “*Moonfall*”, a disaster blockbuster co-financed and co-produced by the Group, is completed and, after the post-production process, the movie is set to be released in 2022.

While its culture is taking the world by storm, the films and dramas made in Korea have also won over audiences from Asian and the world. They have scooped multiple international awards and conquered box offices on numerous occasions. In the past few years, the Group has been well aware of the potential of the Korean film and entertainment market and has actively invested in the sector. One of the projects it has invested and co-produced is “*Space Sweepers*”, Korea’s first science-fiction space feature film. It is regarded as an epoch-making move for the Group in the Korean film and entertainment market. On the other hand, the two television dramas produced by HB Entertainment, in which the Group holds a stake of 31%, have both achieved commendable results in 2020. The viewership of “*Beautiful Love, Wonderful Life*”, in particular, reached 32.3% in its prime and averaged 31.5% during the broadcast of the finale, demonstrating its popularity with Korean audiences. Though the impact of the pandemic in Korea was still fluctuating, the Group believes that, after the pandemic comes under control, HB Entertainment’s ability in production of films and TV dramas and market acumen will help them produce more outstanding masterpieces.

With the pandemic expected to be gradually subdued globally in 2021 after the vaccine emerges, cinemas across the world will reopen and overcome the wintry conditions in the industry, and drive the continued revival of the market. Thanks to its meticulous and conscientious manoeuvre, including culling and investing in high quality film projects in the PRC, the United States and Korea, etc., the Group will reap the harvest as these films will soon be presented to the audience in succession.

Against the backdrop of the film industry being sucker-punched by the pandemic in the past year, the Group, while carrying on its advancement in the media and entertainment aspect, has been looking for diversified opportunities in order to carve out a more robust development path. On 26 November 2020, the Group appointed Mr. YUEN Hoi Po as its Chief Executive Officer, who will take charge of developing a diversified business model for the Group. Since Mr. YUEN’s introduction to the Board of Directors in 2010, he has been the mainstay of the steady and stable progress of the Group’s healthcare and wellness services. Looking ahead, the Group will continue to strengthen its cooperation with substantial shareholders and strategic partners and to formulate a lasting and substantial business profile by continuously developing media and entertainment operations while at the same time pinpointing other development opportunities with great potential.

May I also take this opportunity to, on behalf of the Board, express heartfelt gratitude to the shareholders, investors and business partners for the unfailing trust and support, and to all our staff for their diligence and contribution towards the advancement of the Group over the past year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the year ended 31 December 2020 are summarized in the table below:

	2020 HK\$'000	2019 HK\$'000	
Total revenue	111,055	99,326	+12%
Gross profit	50,866	39,011	+30%
Loss for the year excluding the provisions for impairment of right-of-use assets and interest in an associate	(19,718)	(28,770)	-31%
Loss for the year	<u>(56,574)</u>	<u>(28,770)</u>	+97%

	Revenue		Segment Results	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Entertainment and media operations	13,780	2,736	(13,213)	5,476
Healthcare and wellness services	<u>97,275</u>	<u>96,590</u>	<u>(26,242)</u>	<u>(12,132)</u>
Total	<u>111,055</u>	<u>99,326</u>	<u>(39,455)</u>	<u>(6,656)</u>

During the year under review, economic activities worldwide suffered setbacks and had stagnated due to the COVID-19 pandemic. In the first half of 2020, a large number of films could not be screened on schedule or saw their original release dates deferred as theatres in most countries/regions worldwide were forced into operation on limited scale or even complete suspension. The film market in the PRC had, however, recorded a steady recovery in the second half of 2020 as the epidemic in the country has gradually come under control. Mainly contributed by the release of “*Eight Hundred*”, a film on war and history and co-invested in by the Group grossing RMB3.11 billion box office receipts after its release in August 2020, the revenue of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) from the Entertainment and Media Operations during the year under review increased significantly by about 4 times over the same period last year to approximately HK\$13,780,000 (2019: HK\$2,736,000). Meanwhile, the revenue of the Group’s healthcare and wellness services in the second half of the year had also stabilized, thanks to the epidemic being gradually contained in the PRC, with an annual rise of 1% to approximately HK\$97,275,000 (2019: HK\$96,590,000). During the year under review, the Group’s total revenue amounted to approximately HK\$111,055,000, representing a period-to-period increase of nearly 12%.

The Group has all the while been seeking opportunities to intensify its footprint in the Entertainment and Media Operations. Though the production of certain film projects were temporarily suspended due to the pandemic, the orderly and progressive resumption of the industry in the PRC and the rest of the world, together with the appearance of a vast number of films and dramas on streaming platforms in response to the growing demand for home media and entertainment, the films co-invested and co-produced by the Group will be presented to the worldwide audience in succession. During the year under review, the revenue from the Entertainment and Media Operations had surged by about 400% to approximately HK\$13,780,000 (2019: HK\$2,736,000) mainly due to the box office success of “*Eight Hundred*”, a film on the theme of war and history. It was released in the PRC in August 2020 and became the highest-grossing film in the PRC and in the world in 2020 with box office receipts of RMB3.11 billion. The worldwide distribution rights (except for the PRC) of “*Space Sweepers*” and “*Cherry*”, meanwhile, have been acquired by Netflix and Apple TV+ respectively. These two movies are released in the first quarter of 2021, and the relevant revenue will be recorded in the first half of 2021.

The pandemic has, however, left its mark on the revenue and profit of HB Entertainment Co., Ltd. (“HB Entertainment”), a 31%-owned associate of the Group. The share of profit from its associate had dropped by 49% to approximately HK\$2,504,000 (2019: HK\$4,934,000) and hence the Group has to make a provision for asset impairment for its interest in the associate of approximately HK\$25,761,000 (2019: Nil). As a result, the Entertainment and Media Operations had recorded a segment loss of HK\$13,213,000 (2019: segment profit of approximately HK\$5,476,000). Excluding such provision for asset impairment, the segment profit from the Entertainment and Media Operations would have registered a year-on-year increase of some 129% to approximately HK\$12,548,000 (2019: HK\$5,476,000).

Though the COVID-19 pandemic has revived in different parts of the world to varying degrees and theatres in North America, Europe and some countries in Asia are still shut down or operating with restrictions, the film industry is recovering steadily with the vaccine studies making quickened strides and the economic activities resuming in succession. The cinemas in the PRC have been setting a number of box office records since they returned to business in July 2020. On the other hand, the Group has joined forces with international streaming platforms actively, and the films which it has taken part in financing and producing have been magnets for leading streaming platforms and gained acclaims from worldwide audiences. Aside from “*Space Sweepers*” and “*Cherry*”, the Group is looking forward to the global releases of a few other film projects, which were previously completed in succession, in the years 2021 and 2022 (detailed under “Business Review” section), resulting in the revenue of the Entertainment and Media Operations of the Group being driven up significantly.

As mentioned above, since HB Entertainment, in which the Group holds a stake of 31%, recorded a drop in revenue and profit during the year under review, the Group's share of profit had decreased by 49% to approximately HK\$2,504,000 (2019: HK\$4,934,000) during the year under review. The main reason was that fluctuation of the pandemic in Korea in the second half of the year has been a stumbling block to the filming and production of projects as well as business development of HB Entertainment. However, *"Beautiful Love, Wonderful Life"* and *"365: Repeat the Year"*, which were both produced by HB Entertainment, were aired in the first half of the year and had attained commendable acclaims and results. While the former saw the peak of its national viewership at 32.3% and topped the national viewership ranking for weeks, the latter, with a theme of time travelling and a tight plot, had appealed to the audience. The Group is confident that, when the pandemic subsides and the operations of HB Entertainment resumes to normalcy, HB Entertainment will be able to continue its production of outstanding dramas and offer even greater contribution to the Group by exploring and consolidating the Group's position in the Korean market of film and television industry.

The operation of "Bayhood No. 9 Club" was the major source of revenue for the healthcare and wellness services with proceeds generated from membership subscription, green fee and food and beverages, etc. Originally concentrating on high-end customers, the club has been gradually reinventing its position by extending its target customer group to the mid-tier ones. There was a period-to-period increase in revenue from the relevant operations during the year under review by 1% to approximately HK\$97,275,000 (2019: HK\$96,590,000). The operations related to the golf course had gone mostly unscathed as the outbreak of the pandemic coincided with the conventional closure of the golf course during the winter season. Since its re-opening at the end of March 2020 after the pandemic had gradually subsided, the business has been steady. A rebound in the outbreak in Beijing in the first half of 2020 had affected the food-and-beverages related business and reduced it to limited service. With economic activities restarting steadily from July 2020 onwards, the food-and-beverages related business saw its revival in the second half of the year with a period-to-period revenue growth, resulting in an overall annual revenue broadly similar to that in 2019. Nevertheless, due to the adoption of HKFRS 16, a right-of-use asset was recognized upon the renewal of the lease in relation to the operations of "Bayhood No. 9 Club". In view of the losses from the healthcare and wellness services in the past, the Group also has to make a provision for asset impairment for such right-of-use asset of approximately HK\$11,095,000 (2019: Nil). As a result, the segment loss from the healthcare and wellness services during the year under review had increased by 116% to approximately HK\$26,242,000 (2019: HK\$12,132,000).

Market Review

The world has been thrown topsy-turvy by the COVID-19 pandemic in 2020. All industries have gone through interruptions and impediments to various extents, and the restart of the economy has been gathering pace after the painstaking restructuring of trades and adjustment of policies. The nationwide spending in the PRC had seen a rare drop in the year as a result of the pandemic, and the total retail sales of consumer goods went down by 3.93% on a year-to-year basis to approximately RMB39.20 trillion. The annual Gross Domestic Product (“GDP”), meanwhile, grew by 2.3% year-to-year to RMB101.6 trillion in 2020 in virtue of the active containment of the epidemic and the subsequent rebound of the economy. Spending figure during the lunar new year period of 2021 has not only surged by 28.7% as compared to the same timeframe last year when the country was shrouded in pandemic but was also significantly higher (4.9%) than the pre-pandemic lunar new year period in 2019. Such tremendous improvement in spending power of the majority after the pandemic comes under control has helped fuel the economy of the PRC.

The performance in the PRC market epitomizes the soared demand for spending on offline entertainment in the post-pandemic world. The offline theatres have been recovering at a steady pace after the film industry of the PRC resumed business since July 2020. In September 2020 the box office receipts and number of attendance had already been on a par with the figures in the past year. The film market of the PRC has amassed RMB20.417 billion (approximately US\$3.1 billion) in terms of box office receipts in 2020, outperformed North America (US\$2.2 billion) and climbed to the pinnacle of global box office. From the start of 2021 to 16 February, the box office receipts has already exceeded RMB10 billion, representing a year-to-year growth by 8.2% — and this was achieved within the context of the ceiling of seat occupancy rate being set at 75% under the containment measures introduced in view of the pandemic. With the number of showings, attendance and ticket prices reaching all-time high, the consumers’ strong demand for films are obvious. The pandemic has also speeded up the structural adjustment of the Chinese film sector with the excellent ones outcompeting the rest, and the industry are compelled to actively set sights on getting creative and exploring different genres of themes. By doing so, attractive projects with even better quality will be developed and the reputation of Chinese films will be enhanced. As a result, the Group always insists on critically picking the right projects for investment and producing popular films with exquisite quality, so as to meet the latest trend of the market and become the leader of the industry.

The total box office receipts of North America plummeted by about 80% from 2019 to a mere US\$2.2 billion, which is the lowest point in 40 years. Since the end of March 2020, most theatres in the region were forced to shut down for as long as nine months, and a number of popular films produced and distributed by many companies, such as Walt Disney Company and Warner Bros. were forced to be delayed or shown on streaming media platforms instead. The market, however, remains optimistic that the film market worldwide may resume normal gradually in 2021, and the local or overseas outstanding blockbusters which were pulled out or postponed from releasing may make their debut in the theatres in succession in the coming two years. The commencement of the vaccination programme, which is the next step to control the epidemic, may signify the recovery of the entire film market, with full restoration of the business of the film industry gradually, and it is expected that the overall box office proceeds will improve in 2021.

The Korean film market had received severe blows from the COVID-19 pandemic during the year under review due to the fluctuation of the outbreak. Korea was once the fourth largest market in box office receipts in the world after the PRC, North America and Japan; however, the “2020 Korean Film Industry Report” indicates that the audiences in Korea had dropped by 73.7% on a year-to-year basis to 59.52 million audiences in 2020. In the same year, a total of 135 films in Korea had to postpone its production or date of release, and the economic benefits brought by the film and television industry had regressed by some 67% as compared to 2019. At the same time, however, the expansions of streaming platforms, such as Netflix, have been galloping in Korea under the “new normal” of the pandemic. According to the Chosun Ilbo, a newspaper in South Korea, the revenue of Netflix in Korea reached KRW517.3 billion in 2020, representing more than 2-time boost from 2019. The Korean dramas aired via Netflix have won favour with the worldwide audience owing to their splendid craft of production. “*Space Sweepers*”, Korea’s first sci-fi space feature film which was financed and co-produced by the Group, released on Netflix on 5 February 2021 and became Netflix’s top film in the world for two consecutive days. The Group is convinced that the Korean film market still possesses an immense prospect for both development and profit margin, and that the film industry will embrace a strong rebound after turning the corner of pandemic.

Business Review

(1) *Entertainment and Media Operations*

For the worldwide entertainment and media industry, the year 2020 was a time when challenges were juxtaposed with opportunities. In the first half of the year the outbreak of COVID-19 compelled the theatres across the globe to shut down and the operations of the entertainment and media industry were given a crushing blow. Yet, the pandemic has also transformed consumer spending habits. With the practice of stay-at-home spending gaining momentum amidst the pandemic, a vast number of consumers now choose home theatres over the conventional ones, resulting in more and more films being released on online streaming platforms and making gradual changes to be film distribution and business model.

The Group has all the way been paying close attention to the market trend and the predilection of the audience. During the year under review, the Group had produced different quality films and presented them to audiences in a new way under the limitations brought forth by the pandemic. Amongst those films, “*Eight Hundred*”, which was co-invested in by the Group, has become the highest grossing film in the PRC and also in the world in 2020. Apart from making a significant contribution to the Group’s revenue, its success is also the recognition of the Group’s investment acumen and production ability. “*Eight Hundred*”, produced by Huayi Brothers Film Co., Ltd and directed and co-written by Guan Hu, is a historical war film which has won over the critics and audiences. Since its theatrical release in the PRC on 21 August 2020, “*Eight Hundred*” has already grossed more than RMB3.1 billion according to the statistics by Maoyan Entertainment.

“*Space Sweepers*”, Korean’s first space sci-fi film, is financed and co-produced by the Group and was released exclusively by Netflix rather than in the originally planned offline theatres as the pandemic is still fluctuating. It made its debut on Netflix, with 31 different sets of subtitles prepared for viewers from around 190 countries and regions, on 5 February 2021 and took the audience by storm. For two consecutive days it was the highest ranked movie globally on Netflix and received wide media coverage. Starring Song Jung-ki and Kim Tae-ri, “*Space Sweepers*” had a production budget of KRW24 billion (equivalent to approximately HK\$160 million) and it was the first reunion of Song Jung-ki and Jo Sung-hee, the director, since “*A Werewolf Boy*”. The Group also possesses the sole distribution rights of “*Space Sweepers*” in the PRC and looks forward to introducing the film to the audience in Mainland China at the earliest opportunity.

Meanwhile, “*Cherry*”, another film financed and co-produced by the Group, had its global distribution rights acquired by Apple TV+ during the year under review. Apple TV+ is an original film platform under Apple Inc. and “*Cherry*” premiered on Apple TV+ on 12 March 2021. The first movie directed by the Russo Brothers (Anthony Russo and Joe Russo) since “*Avengers: Endgame*”, “*Cherry*” is starred by Tom Holland who featured in the “*Spiderman*” series. The film is an adaptation from Nico Walker’s semi-autobiographical novel under the same title, in which the author tells his own story as he, after joining the American army in his youth, serving as an army medic in Iraq and retiring from the military, suffered from post-traumatic stress disorder (PTSD). He became a drug addict along with his wife, and, to satisfy his desire for drugs, eventually degenerated into a bank robber. “*Cherry*” is the Group’s second film being released online via streaming platform, and such arrangement enables more audiences to enjoy the outstanding films produced by the Group when the pandemic is raging.

During the year under review, two other blockbusters invested by the Group, namely “*Moonfall*” and “*Extinct*”, had proceeded to the post-production stage and are expected to be distributed between 2021 and 2022. “*Moonfall*” is a Hollywood sci-fi and disaster epic directed by Roland Emmerich, the director of “2012”, “*The Day After Tomorrow*” and “*Independence Day*” series and is a production in partnership with Roland Emmerich, Centropolis Entertainment, Street Entertainment, Huayi Brothers International Limited and the Group. It narrates the story of the moon being driven out of orbit by a mysterious force. The moon is hence on course for collision with the Earth, and the gravitational imbalance sends the Earth into chaos. Amidst desperation, a seemingly disorganized squad decides to fight the final battle in order to protect the Earth and humankind. The Group has also acquired the distribution right of “*Moonfall*” in the PRC. On the other hand, “*Extinct*” is an original animated comedy aiming at family viewing. The story involves a species of animals called “Flummels” living in the Galápagos Islands in the 19th Century. Op and Ed, Flummels and siblings to each other, accidentally time-travel to modern-day Shanghai and discover that Flummels will soon become extinct. The duo therefore decide to travel back in time to save their race. “*Extinct*” is directed by David Silverman (the director of “*The Simpsons Movie*” and “*Monsters, Inc.*” who has been honoured with four Emmy Awards) and the voice cast features Zazie Beetz (who has starred in “*Deadpool 2*” and “*Joker*”).

At the same time, the Group has acquired the PRC distribution rights of “*Chaos Walking*”, a film adapted from Patrick Ness’s bestselling sci-fi trilogy. Produced by the Lionsgate and starring Tom Holland of the “*Spiderman*” series and Daisy Ridley of the “*Star Wars*” series, the film is about a town where only the men survive after all women were killed by a virus called “Noise”. The men who survive can read the others’ minds and now try to look for the transmitter of the virus in order to seek revenge. The film is expected to be in theatres of the PRC in 2021.

With regard to the Korean market, the Group remains optimistic about the demand for Korean films and television dramas in Korean and overseas markets. It has been actively looking for outstanding Korean films and television dramas and producers during the year under review. Amongst them, “*Space Sweepers*”, the Korean film in which the Group has participated in its financing and production, has been well received. Besides, through HB Entertainment, the associate in which the Group holds a stake of 31%, the Group continues to engage itself in the production of and investment in outstanding films and television dramas, as well as management of artistes, in South Korea. During the year under review, the spread of the pandemic in Korea has been a stumbling block to the filming and production of projects as well as business development of HB Entertainment. Nevertheless, in the face of the unfavourable restrictions and mammoth challenges within this period, HB Entertainment was still able to produce and distribute two highly acclaimed films, namely “*Beautiful Love, Wonderful Life*” and “*365: Repeat the Year*”. “*Beautiful Love, Wonderful Life*”, in particular, reached as high as 32.3% in regard to the national viewership and became one of the most popular television dramas of the year. Such an amazing feat has once again proved HB Entertainment’s ability in production and market acumen. The Group is confident that, after the pandemic subsides and the operations resume to normalcy, HB Entertainment will continue to produce outstanding dramas and offer impressive contribution to the Group. On another note, since Warner Bros. decided to exit the film production market of Korea, the Huayi-

Warner Contents Fund, which was established jointly by the Group, Warner Bros. Korea et al., will cease operation and the Fund had gradually made payments on the redemptions of shares to the shareholders.

(2) *Healthcare and Wellness Services*

During the year under review, the Group's healthcare and wellness services focused on the operations of "Bayhood No. 9 Club", a healthcare and wellness centre which the Group continues to operate on a lease basis. It is one of the top green health clubs in the PRC with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia's first PGA-branded golf academy, offering high-end enterprises and individual clients professional and excellent healthcare and wellness services. The membership of "Bayhood No. 9 Club" remained steady during the year under review and the healthcare and wellness services had contributed approximately HK\$97,275,000 (2019: HK\$96,590,000) in revenue to the Group, marking an increase of 1% year-on-year. In the first half of 2020, the outbreak of the pandemic coincided with the conventional closure of the golf course and hence had barely left its mark on the related business. The food-and-beverages-related business, meanwhile, was forced to be suspended for a considerable period but had its change in fortunes in the second half of the year, recording a significant growth in proceeds, thanks to the resumption of social activities and heightened enthusiasm of the public for going out and spending. Coupled with the burgeoning awareness of the importance of outdoor activities and personal health in face of the pandemic, business related to golf playing has augmented, meaning that the annual revenue generated by the healthcare and wellness services remained broadly similar to that in 2019.

The increase in demand for the healthcare and wellness services during the pandemic however comes at the same time with the keener competition in the market and the rise of costs (such as staff cost, water charge, etc.). The Group will continue to endeavour to step up its efforts in cost controls, so as to maintain the profit margin and stable operations of the healthcare and wellness services, which are basically self-sustaining in terms of cash flow at present.

Business Outlook

The COVID-19 pandemic in 2020 was not only an unexpected and catastrophic punch to the global entertainment and media industry but also a catalyst for the industry's move to actively explore more markets with growth potential. In 2021, it is expected that the film production in a number of countries or regions will return to normal steadily after the implementation of the guidelines on preventive measures for COVID-19. Coupled with the progress of the relevant research and vaccination across the world, the gradual subjugation of the pandemic may be on the cards with the result of a progressive recovery of the film industry. As the projects which the Group financed and developed in the past are being completed in succession, it is anticipated that the Group will have a number of films for showing in the years 2021 and 2022. Amongst them, "*Space Sweepers*", a Korean sci-fi space feature film, has taken the lead and was aired on Netflix globally on 5 February 2021. And "*Cherry*" has also been screened to worldwide audiences on Apple TV+, an original film platform under Apple Inc., on 12

March 2021. The resulting revenue will be recorded in the first half of 2021. The Group is confident that these films will all make significant contributions to the Group and help enhance the Group's revenue in respect to its Entertainment and Media Operations.

Meanwhile, the impetus given by the internet to the film market has become even more obvious during the pandemic and intensifies its competition with theatres vastly. A number of film distributors have adopted a new sales model, namely the net roadshow, to explore new markets. According to the joint report "Annual Report of the Chinese Film Market" issued by Lighthouse and Weibo Movies, eight out of the top ten highest grossing films in the PRC in 2020 had chosen livestream ticket sales for promotion and distribution. Besides, the pandemic has derived the "stay-at-home" economy, which turned the consumers' attention to home entertainment and, in order to satisfy their demands and meet their change in viewing habits, the distributors have altered the way of distribution: films are now distributed and screened directly on OTT streaming platforms. As a result, the viewership and influence of many media streaming platforms have soared. The Group will continue to explore the possibility of premiering online and strengthen its cooperation with different international media streaming platforms.

Movies from North America still possess an enormous impact on the global film market, and they had the swiftest reaction to the pandemic. After repeated setbacks to release the films in theatres, major distributors across the world set their sights on online streaming platforms. For example, the Walt Disney Company introduced Disney+ to fulfil the demand for home entertainment, whilst Warner Bros., along with its subsidiary HBO, premiered "*Wonder Woman 1984*" simultaneously in cinemas and on media streaming platforms at the end of 2020. Such strategy has opened up a new business model: the competitive relationship between the traditional film industry and streaming platforms has evolved into a new trend of complementing and sharing prosperity. The Group has always been closely monitoring Hollywood products and any change in business model, as well as carefully choosing the most outstanding film and television drama projects for investment and production. "*Moonfall*", the Hollywood sci-fi and disaster epic, and "*Extinct*", an animated comedy, have proceeded to the post-production stage and these two proud products of the Group are expected to be released in years 2021 and 2022. In future, the Group will carry on developing projects with topnotch film studios and producers in North America and Europe, etc., so that different premium works may be presented to the audience continuously.

For the Korean market, the Korean films have won over the worldwide audience owing to the splendid craft of production. Taking "*Space Sweepers*", with Song Jung-ki playing the leading role, as an example. As Korea's first sci-fi movie, it has been hugely popular this year since its debut on Netflix and headed the charts in many countries. The Group believes that Korean films and television dramas have immense potential for development and expects HB Entertainment, its associate, to come up with more top-quality products for enrichment of the Group's accumulation of quality Korean IP.

Different industries have all hoarded up valuable experience in their struggle with the COVID-19 pandemic. Even though the operations of the theatres worldwide are still subject to certain restrictions, the online streaming platforms have demonstrated its business potential. The Group will continue to closely monitor the latest development of the epidemic and coordinate with global distributors for setting appropriate strategic adjustment, including determining the theatrical release slots according to

the time of reopening cinemas, as well as to explore chances of collaboration with online streaming media. As for the healthcare and wellness services, the operation of “Bayhood No. 9 Club” has returned to normalcy after the pandemic came under control in the second half of 2020 in the PRC and is therefore expected to continue to generate stable revenue to the Group. The Group will also closely monitor the development of the pandemic and continue the preventive hygiene measures in place at the club as they are crucial to its stable operation.

Looking ahead, the Group will continue to expand its cooperation with its substantial shareholders and strategic partners and to formulate a lasting and substantial business profile by continuously developing media and entertainment operations while at the same time actively pinpointing other development opportunities with great potential through its large business group.

Environmental & Social Responsibilities

a) *Environmental responsibilities*

Committed to building an “eco-friendly” enterprise, the Group strictly abides by applicable environmental laws and regulations in jurisdictions where its operations are located. The Group has implemented various environmental management actions, so as to ensure that exhaust gas, sewage and office waste are properly recycled and processed, with a view to minimizing the environmental impact of our business operations. The Group embeds the concept of green environmental protection into its activities, actively promotes environmental awareness, advocates the conservation and recycling of energy and other resources, to improve the efficiency of the resource utilization, with the aim of minimizing the natural resources wasted while reducing operating costs. We strictly abide by relevant laws and regulations on environmental protection where we do business and have formulated corresponding environmental management systems, actively deliver environmental protection messages, enhance environmental awareness among employees, customers as well as other stakeholders, thus fulfilling our shared commitment to protecting the natural environment.

b) *Social responsibilities*

The Group adheres to a “people-centric” talent strategy, attaches importance to the recruitment and cultivation of talents, and is committed to building core competitiveness with excellent staff teams. The Group complied with the laws and regulations relating to human resources management where their operations are located, they have established human resources management systems. Safety drills are conducted on regular basis to enhance safety awareness among employees and their ability to cope with dangers; regular trainings are provided to employees and clear promotion channels are put in place to help them realize individual potential and achieve long-term career development; various employee activities are organized to enhance their physical and mental health. We also create a safe and comfortable office environment, attach importance to employees’ occupational health and safety, offer generous salary and holiday benefits, as well as safeguard the legitimate rights and interests of our employees, thus achieving growth along with employee development.

Striving to ensure product and service quality from the source, the Group has put in place strict standards for supplier selection to ensure that the business qualifications, management capabilities, service and product quality, as well as quotations of suppliers are in line with its requirements on products and services. Through on-site investigation, the Group conducts a comprehensive assessment to ensure the stability in its supplier performance, which covers aspects like production and supply capabilities, as well as credentials, etc. To ensure a sustainable supply chain, the Group also regularly evaluates the compliance of suppliers, as well as the fulfilment of their environmental and social responsibilities, and timely terminates cooperation with suppliers that underperform in service standards and secures additional suppliers of excellent performance.

The Group is committed to providing customers with a satisfactory experience through the delivery of premium health and wellness services. The Group attaches great importance to requests and suggestions made by its customers, we have therefore set up a number of channels, including group chats on WeChat and customer hotlines, so as to collect and follow up on customer feedback in a timely manner, with a view to ensuring that their requests are properly addressed. The Group conducts thorough investigation and analysis at the early stage of its media investment, and it has also established a Greenlight Committee responsible for reviewing investment projects. By considering audience preference, industry policies and other objective factors, the Group evaluates films' profitability and compliance to the laws and regulations to determine whether to invest, and strives to present high-quality and positive film and television works to the public.

The Group safeguards the legitimate rights and interests of the shareholders, customers as well as other stakeholders. In addition to strictly complying with laws and regulations against corruption, bribery, fraud and money laundering in jurisdictions where its operations are located, the Group also strengthens management on corporate internal control to prevent corruptions.

Having acknowledged its corporate social responsibilities, the Group continues to care for vulnerable groups. In forms such as donations and provision of employment opportunities, the Group fully leverages on its strengths in resource reserve to support the development of local communities and give back to the society.

As a responsible corporate citizen, the Group keeps close communication with all of its stakeholders, so as to maintain collaborative relations based on mutual benefit and trust, to stay updated on demands and expectations of relevant stakeholders, and to keep improving its mechanism for stakeholder engagement, aiming to deliver synergistic growths in social and economic benefits. As a company listed on SEHK, the Group strictly complies with the disclosure requirements of SEHK. Our Environmental, Social and Governance (ESG) Report for the year will be disclosed separately. As one of the platforms that we use to communicate with the stakeholders, the ESG report will deliver a comprehensive view on what the Group has accomplished in the establishment of ESG systems, as well as its performance during 2020.

FINANCIAL REVIEW

Revenue for the year ended 31 December 2020 amounted to approximately HK\$111,055,000 (2019: HK\$99,326,000), being a 12% increase comparing to the prior year. Revenue from the “Entertainment and Media” segment surged by 4 times to approximately HK\$13,780,000 (2019: HK\$2,736,000), mainly attributed to the successful release of epic movie “*Eight Hundred*” which has generated box office of more than RMB3.1 billion in the PRC. The Group owns a minority stake in “Eight Hundred” project and has accounted this film rights investment as financial asset at fair value through profit or loss, with the expected net gain from the project being recorded as part of the Group’s revenue. Accordingly, the contribution of revenue from the “Entertainment and Media” segment to the Group’s revenue increased to 12% (2019: 3%). As discussed in the “Business Review” section, “*Space Sweepers*” and “*Cherry*” have been released through Netflix and Apple TV+ in the first quarter of 2021. The management expects that the contribution of revenue from the “Entertainment and Media” segment will significantly boost in year 2021. On the other hand, revenue from the “Healthcare and Wellness Services” segment for the year ended 31 December 2020 amounted to approximately HK\$97,275,000 (2019: HK\$96,590,000), being an 1% increase comparing to the prior year. The outbreak of COVID-19 in the PRC coincided with the conventional closure of golf course of “Bayhood No. 9 Club” during the winter season, and in fact, golf playing has become more popular as there was growing awareness of the personal health in face of the pandemic. However, on the other hand, the operation of food and beverage business had to be scaled down for certain period of time during the year. As a result, overall revenue from the “Healthcare and Wellness Services” segment remained stable during the year.

Cost of sales for the year ended 31 December 2020 amounted to approximately HK\$60,189,000 (2019: HK\$60,315,000), which remained stable comparing to the prior year. Included in the cost of sales during the year was an impairment of film rights and film production in progress of approximately HK\$1,138,000 (2019: Nil). Excluding the impairment of film rights and film production in progress, the cost of sales, representing the cost of operation of the “Healthcare and Wellness Services” segment, slightly dropped by 2% comparing to the prior year.

Gross profit for the year ended 31 December 2020 amounted to approximately HK\$50,866,000 (2019: HK\$39,011,000), being a 30% increase comparing to the prior year, with gross profit margin increased to 46% (2019: 39%), thanks to the high profit margin of the “Entertainment and Media” segment with soaring project interest revenue and profit from the release of “*Eight Hundred*” during the year.

Other income and other gains, net, for the year ended 31 December 2020 amounted to approximately HK\$9,890,000 (2019: HK\$936,000), being a 9.6 times increase comparing to the prior year. The significant increase was mainly due to the appreciation of RMB and KRW against HK dollars during year 2020, leading to an exchange gain of approximately HK\$5,289,000 for the year ended 31 December 2020, while there was an exchange loss of approximately HK\$1,968,000 for the year ended 31 December 2019.

There was no marketing and selling expenses recorded for the year ended 31 December 2020 and 2019, as there was no theatrical release of new films owned or jointly operated by the Group during the year.

Administrative expenses for the year ended 31 December 2020 amounted to approximately HK\$94,839,000 (2019: HK\$72,265,000), being a 31% increase comparing to the prior year. The increase in administrative expenses during the year was mainly because: 1) there was a provision for impairment of right-of-use asset in relation to the “Bayhood No. 9 Club” operations of approximately HK\$11,095,000 (2019: Nil) during the year (please refer to note 11 to the results announcement for details); and 2) there was an one-off interests and surcharges payable to the lessor of the “Bayhood No. 9 Club” operations of approximately HK\$8,137,000 (2019: Nil) during the year.

Share of results of an associate, representing the share of results of HB Entertainment (the Group’s 31%-owned associated company which is principally engaged in production of and investment in movies and TV drama series, provision of artist management and agency services in South Korea), amounted to a profit of approximately HK\$2,504,000 (2019: HK\$4,934,000). Although HB Entertainment has produced two popular TV drama series in the first half of 2020, including “*Love is Beautiful, Life is Wonderful*” which has recorded a highest national viewership rating of 31.5%, there was no new TV drama being produced by HB Entertainment in the second half of 2020 due to the impact of unstable COVID-19 outbreak in South Korea, leading to a decline in its financial performance during the year. Accordingly, there was a provision for impairment of interest in an associate of approximately HK\$25,761,000 (2019: Nil) during the year (please refer to note 14 to the results announcement for details).

Finance income/(costs), net for the year ended 31 December 2020 amounted to a net income of approximately HK\$1,172,000 (2019: a net cost of HK\$601,000). The increase during the year was mainly due to the net result of: 1) the incurrence of exchange gain related to other borrowings of approximately HK\$6,322,000 (2019: Nil) during the year; 2) an increase of interests on lease liabilities to approximately HK\$3,644,000 (2019: HK\$25,000) upon renewal of the lease in relation to “Bayhood No. 9 Club” operations and the entering into of other leases during the year; and 3) an increase of interests on bank borrowings to approximately HK\$1,478,000 (2019: HK\$546,000) during the year. The bank borrowings was fully repaid in the second half of 2020.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 31 December 2020, the Group held cash and cash equivalents of approximately HK\$113,837,000 (2019: HK\$198,248,000), being a 43% decrease comparing to the balance as at 31 December 2019. The Group has invested in certain films production during the year, leading to a decrease in balance of cash and cash equivalents as at 31 December 2020.

The Group is at net current asset position of HK\$64,439,000 as at 31 December 2020 (2019: HK\$276,042,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.73 as at 31 December 2019 to 1.64 as at 31 December 2020, representing a healthy liquidity position.

The gearing ratio, representing the net debt (sum of total borrowings, financial liabilities and lease liabilities less cash and cash equivalents and pledged bank deposits) to total equity, is not applicable due to net surplus as at 31 December 2020 (2019: 15%). The Group's total interest-bearing bank borrowings as at 31 December 2019 amounted to approximately HK\$44,653,000 and was denominated in Chinese Renminbi. The interest-bearing bank borrowings was used to finance investments in films and was fully repaid on 30 July 2020.

Foreign Currency Exchange Exposure

The Group has operations and investments in the PRC, South Korea, the USA and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and South Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the current year, appreciation (2019: depreciation) in Chinese Renminbi and South Korean Won against Hong Kong dollars resulted in net exchange gain of approximately HK\$5,289,000 (2019: net exchange losses of HK\$1,968,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and South Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

Capital Structure

The Group has mainly relied on its equity, bank and other borrowings and internally generated cash flow to finance its operations.

During the years ended 31 December 2020 and 2019, the Company has not issued new ordinary shares.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2020, none of the Group's assets was charged. As at 31 December 2019, the Group's secured bank and other borrowings of HK\$365,682,000 were secured by pledged deposits amounting to HK\$370,624,000.

As at 31 December 2020 and 2019, the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 31 December 2020, the Group employed a total of 21 (2019: 27) full-time employees in Hong Kong and the PRC, and continued to manage “Bayhood No. 9 Club” operations with 314 (2019: 396) full-time employees in the PRC. In addition, the Group has entered into several joint operation arrangements to produce or distribute films. The crew members employed under such joint operation arrangements have not been included in the above statistics.

The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2020, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the “CG Code”) with the exception of the deviations from code provisions A.1.1 and A.2.1.

The code provision A.1.1 of the CG Code states that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year, a total of three regular meetings of the Board were held. The Board considers that the three meetings were sufficient to address emerging board matters of the Company.

The code provision A.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the appointment of Mr. YUEN Hoi Po as the Chief Executive Officer on 26 November 2020, the Company has complied with this requirement.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. Mr. YUEN Kin is the chairman of Audit Committee and the other two members of the committee are Dr. WONG Yau Kar David and Mr. CHU Yuguo. The Audit Committee of the Company has adopted terms of references which are in line with the CG Code.

The Audit Committee of the Company has reviewed the Group's annual results for the year ended 31 December 2020 and provided advice and comments thereon before presenting it to the Board for approval. The figures in respect of this results announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements of the year. The work performed by PricewaterhouseCoopers in this results announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout year 2020.

The Code of Conduct applies to all the relevant employees as defined in the CG Code, including any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.huayitencent.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company for 2020 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our employees for their diligence and dedication to the Group. We also thank our shareholders, customers, banks and business partners for their continuous support.

By Order of the Board
Huayi Tencent Entertainment Company Limited
WANG Zhongjun
Chairman

Hong Kong, 25 March 2021

As at the date of this announcement, the Board comprises:

Executive directors: Mr. WANG Zhongjun (Chairman), Mr. CHENG Wu (Vice Chairman), Mr. YUEN Hoi Po (CEO)
Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo