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Transmit Entertainment Limited
傳遞娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$704.0 million for the year ended 30 June 2022, representing an increase of approximately HK\$247.0 million or 54.0% as compared to last year.
- The film, TV series and variety show production and distribution business recorded total revenue of approximately HK\$507.8 million for the year ended 30 June 2022, representing a substantial increase of approximately 147.3% as compared to last year. The Group's proportion of revenue from Mainland China increased by 8.5 percentage points year-on-year to approximately 92.2%. Mainland China continues to be the major source of income and business growth of the Group.
- The Group recorded a loss attributable to owners of the Company of approximately HK\$92.2 million for the year ended 30 June 2022, as compared to a loss of approximately HK\$7.6 million recorded last year. This was primarily due to (i) the delays and disruptions in the productions of the Group's TV programs and artiste work schedules due to the impact of the COVID-19 pandemic and various restrictive measures, which, having also taken into account the current market condition and future uncertainty, led to the Company's provision of impairment loss on goodwill of approximately HK\$67.7 million for the year; and (ii) a decrease in revenue and profit from the Group's artiste management business for the year due to the impact of the COVID-19 pandemic and the related restrictive measures, which resulted in a drop in the fair value of purchased call option of approximately HK\$16.8 million. If certain non-cash flow items, such as impairment on goodwill and fair value change on purchased call option are not taken into account, loss for the year attributable to owners of the Company would be approximately HK\$7.7 million, i.e. no material change as compared to last year.
- The Board does not recommend payment of final dividend for the year ended 30 June 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	3	703,981	456,988
Cost of sales		<u>(577,836)</u>	<u>(325,857)</u>
Gross profit		126,145	131,131
Other gains and losses	5	(1,108)	115,287
Other income	5	66,945	70,416
Selling and distribution expenses		(84,225)	(159,453)
Administrative expenses		(82,634)	(82,413)
Impairment losses (recognised) reversed under expected credit loss model, net		(998)	44
Impairment losses recognised on goodwill		(67,652)	–
Fair value change on purchased call option		(16,803)	4,781
Fair value change on contingent consideration payable		1,529	1,268
Finance costs	6	(23,365)	(67,382)
Share of result of a joint venture		<u>–</u>	<u>(8)</u>
(Loss) profit before tax		(82,166)	13,671
Income tax expense	7	(6,974)	(5,450)
(Loss) profit for the year	8	(89,140)	8,221
Other comprehensive (expense) income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		<u>(12,386)</u>	<u>24,144</u>
		<u>(12,386)</u>	<u>24,144</u>
Total comprehensive (expense) income for the year		<u>(101,526)</u>	<u>32,365</u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss) profit for the year attributable to:			
– Owners of the Company		(92,166)	(7,633)
– Non-controlling interests		3,026	15,854
		<u>(89,140)</u>	<u>8,221</u>
Total comprehensive (expense) income for the year attributable to:			
– Owners of the Company		(102,883)	16,511
– Non-controlling interests		1,357	15,854
		<u>(101,526)</u>	<u>32,365</u>
Loss per share			
Basic (HK cents)	<i>10</i>	<u>(3.55)</u>	<u>(0.29)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		2,285	1,415
Right-of-use assets		117,388	170,517
Goodwill	11	393,821	473,363
Derivative financial assets		–	20,332
Intangible assets	12	71,584	91,325
Interest in a joint venture		155	155
Rental deposits		16,274	15,089
Pledged bank deposits		–	21,000
		<u>601,507</u>	<u>793,196</u>
Current assets			
Film rights and television series production in progress	13	327,422	518,780
Inventories		–	3,863
Trade and other receivables	14	152,152	168,970
Contract assets		–	23,647
Loan to a related party		2,835	2,761
Derivative financial assets		3,576	–
Financial assets at fair value through profit or loss		2,410	12,274
Restricted bank balances		3,404	2,898
Pledged bank deposits		67,518	668
Bank balances and cash		103,462	103,823
		<u>662,779</u>	<u>837,684</u>
Current liabilities			
Trade and other payables	15	201,885	275,986
Contract liabilities		155,116	356,999
Tax payable		19,499	9,797
Bank and other borrowings	16	109,101	78,556
Loans from related companies	17	9,993	–
Bonds payable		14,258	14,308
Amount due to a joint venture		424	380
Contingent consideration payable		–	69,082
Lease liabilities		90,215	63,890
		<u>600,491</u>	<u>868,998</u>
Net current assets (liabilities)		<u>62,288</u>	<u>(31,314)</u>
Total assets less current liabilities		<u>663,795</u>	<u>761,882</u>

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Non-current liabilities			
Other payables		–	383
Bonds payable		–	13,281
Bank and other borrowings	<i>16</i>	–	18,000
Loans from related companies	<i>17</i>	30,677	188,992
Loans from the controlling shareholder		–	38,560
Contingent consideration payable		127,509	70,865
Deferred tax liabilities		17,896	21,215
Lease liabilities		88,686	160,778
		<u>264,768</u>	<u>512,074</u>
Net assets		<u>399,027</u>	<u>249,808</u>
Capital and reserves			
Share capital	<i>18</i>	6,489	6,489
Reserves		<u>(128,174)</u>	<u>(16,024)</u>
Deficit in shareholders' equity		(121,685)	(9,535)
Perpetual bonds	<i>19</i>	464,612	204,600
Non-controlling interests		<u>56,100</u>	<u>54,743</u>
Total equity		<u>399,027</u>	<u>249,808</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022

1. GENERAL INFORMATION

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

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 4.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time, which are mandatorily effective for the current year for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39 HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
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The application the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company (the “Directors”) anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Film and television (“TV”) series production and distribution income	507,848	205,335
Film exhibition income	54,684	62,828
Pan entertainment income	141,449	188,825
Total	703,981	456,988
Timing of revenue recognition		
At a point in time	584,299	345,694
Over time	119,682	111,294
Total	703,981	456,988

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

Performance obligations for contracts with customers

- a. Film and TV series production and distribution
 - i. Income from the distribution of variety shows and TV series program is recognised when variety shows and TV series program have been released and distributed to TV broadcast networks.
 - ii. Income from scriptwriters and directors service on TV series production is recognised over time as performance obligation is satisfied.
- b. Film exhibition
 - i. Income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released.
 - ii. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.
- c. Pan entertainment

Income from pan entertainment services including celebrity agency service and actor service. Income from celebrity agency service is recognised at a point of time when the services are delivered. Income from actor service is recognised over time as performance obligation is satisfied.

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

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

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (the “CODM”), for the purposes of resources allocation and assessment of segment performance is based on the following reportable and operating segments identified under HKFRS 8 *Operating Segments*.

- (i) Film and TV series production and distribution;
- (ii) Film exhibition;
- (iii) Pan entertainment

The accounting policies of the operating and reportable segments are the same as the Group’s accounting policies described in note 3. Segment profit (loss) represent the profit earned or loss incurred by each segment without allocation of certain head office and corporate expenses, certain finance costs, fair value change on contingent consideration payable, fair value change on purchased call option, impairment losses recognised on goodwill, gain on disposal of subsidiaries and share of result of a joint venture. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Segment revenue and results

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

For the year ended 30 June 2022

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>507,848</u>	<u>54,684</u>	<u>141,449</u>	<u>703,981</u>
Segment profit (loss)	<u>16,390</u>	<u>(773)</u>	<u>28,660</u>	44,277
Unallocated head office and corporate expenses				(31,640)
Fair value change on contingent consideration payable				1,529
Unallocated finance costs				(11,877)
Fair value change on purchased call option				(16,803)
Impairment losses recognised on goodwill				<u>(67,652)</u>
Loss before tax				<u>(82,166)</u>

For the year ended 30 June 2021

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
– External customers	<u>205,335</u>	<u>62,828</u>	<u>188,825</u>	<u>456,988</u>
Segment profit (loss)	<u>3,775</u>	<u>(93,016)</u>	<u>40,998</u>	(48,243)
Unallocated head office and corporate expenses				(37,088)
Fair value change on contingent consideration payable				1,268
Unallocated finance costs				(21,605)
Fair value change on purchased call option				4,781
Gain on disposal of subsidiaries				114,566
Share of result of a joint venture				<u>(8)</u>
Profit before tax				<u>13,671</u>

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

Other segment information

For the year ended 30 June 2022

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss:						
Amortisation of intangible assets	-	-	(19,313)	(19,313)	-	(19,313)
Depreciation of right-of-use assets	(654)	(52,883)	(876)	(54,413)	(2,258)	(56,671)
Depreciation of property, plant and equipment	(250)	(54)	(248)	(552)	(22)	(574)
Interest income from banks and loan to a related party	131	14	292	437	273	710
Finance costs	(34)	(11,296)	(158)	(11,488)	(11,877)	(23,365)
Impairment loss on trade and other receivables	(998)	-	-	(998)	-	(998)

For the year ended 30 June 2021

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Pan entertainment <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss:						
Amortisation of intangible assets	-	-	(17,557)	(17,557)	-	(17,557)
Depreciation of right-of-use assets	(881)	(100,699)	(1,981)	(103,561)	(2,633)	(106,194)
Depreciation of property, plant and equipment	(279)	(8,684)	(96)	(9,059)	(21)	(9,080)
Interest income from banks and loan to a related party	196	14	285	495	543	1,038
Finance costs	(63)	(45,555)	(159)	(45,777)	(21,605)	(67,382)
Reversal of impairment loss on trade and other receivables	44	-	-	44	-	44

Geographical information

An analysis of the Group's revenue from external customers by geographical market based on where the film and TV series production and distribution income, film exhibition income and pan entertainment income is derived from are as below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong and Macau	54,684	65,740
Mainland, the People's Republic of China (the "PRC")	649,297	382,302
Others	–	8,946
	<u>703,981</u>	<u>456,988</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Mainland, PRC	473,924	564,843
Hong Kong	111,309	171,932
	<u>585,233</u>	<u>736,775</u>

Information about major customers

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A ¹	<u>460,882</u>	<u>94,787</u>

¹ Revenue from film and TV series production and distribution.

5. OTHER GAINS AND LOSSES AND OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other gains and losses		
Gain on disposal of subsidiaries	–	114,566
Gain on disposal of property, plant and equipment	79	–
Donation	(242)	–
Net foreign exchange (loss) gain	(945)	721
	<u>(1,108)</u>	<u>115,287</u>
Other income		
Cinema operation right income (<i>note ii</i>)	45,731	–
Handling service income	1,574	1,405
Membership income	–	896
Interest income from banks and loan to a related party	710	1,038
Rent concessions	–	20,169
Government subsidy received (<i>note i</i>)	2,897	11,755
Coupon sales income from film producers	788	13,483
Cinema promotion income	3,239	1,993
Commission income from artiste management	–	12,019
Additional value added tax input deduction	3,051	3,407
Others	8,955	4,251
	<u>66,945</u>	<u>70,416</u>

Notes:

- i. Amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development and recognised upon receipt. There are no unfulfilled conditions or contingencies relating to these subsidies.
- ii. Cinema operation right income represents income arising from a management agreement between Cinema City (Langham Place) Limited (“CCLP”), a subsidiary of the Company, and Mandarin Motion Pictures Limited, a connected party controlled by a director of CCLP, in relation to operation of the cinema of CCLP for the period from the date of 26 May 2021 to 25 May 2024.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest expenses on:		
Loans from related companies	1,949	9,576
Loans from the controlling shareholder	–	1,379
Lease liabilities	11,523	45,855
Bank and other borrowings	8,792	6,522
Bonds payable	1,101	4,050
	<u>23,365</u>	<u>67,382</u>

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax: PRC Enterprise Income Tax (“EIT”)	11,802	7,128
Deferred tax	<u>(4,828)</u>	<u>(1,678)</u>
	<u>6,974</u>	<u>5,450</u>

Pursuant to the rules and regulations of Cayman Islands, the Company is not subject to any income tax in Cayman Islands for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25% for both years.

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

As stipulated in Cai Shui [2011] No. [112] and Cai Shui [2021] No. [27], enterprises newly established in Khorgas special economic areas and engaged in the encouraged industries as defined under the 《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》(Catalogue of Key Encouraged Developing Industries for Enterprise Income Tax Benefits in Difficult Areas of Xinjiang*) could enjoy EIT exemption for five years starting from its first operation income-generating year during the period from 2011 to 2020, and from 2021 to 2030 respectively. According to 《企業所得稅優惠事項備案表》(Enterprise Income Tax Benefits Record*), one subsidiary of the Group obtained the approval from the relevant PRC tax bureau on 23 June 2017 for entitlement of EIT exemption from 1 January 2017 to 31 December 2021. In July 2020, another subsidiary of the Group obtained the approval from the relevant PRC tax bureau for entitlement of EIT exemption from 1 January 2020 to 31 December 2024. As stipulated in Xin Zheng Fa [2012] No. [48] 《關於加快喀什、霍爾果斯經濟開發區建設的實施意見》(Implementation Advice on Accelerating the Construction of Kashgar and Khorgas special economic Areas*), both subsidiaries mentioned above could enjoy exemption of EIT charged by local tax bureau, which takes account for 40% of the total EIT, for five years starting from the end of the previous exemption.

* *For identification only*

The income tax expense for the year can be reconciled to (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss) profit before tax	<u>(82,166)</u>	<u>13,671</u>
Tax at the income tax rate of 16.5% (2021: 16.5%)	(13,557)	2,256
Tax effect of income not taxable for tax purpose	(79)	(12,620)
Tax effect of expenses not deductible for tax purpose	17,190	1,090
Tax effect of fair value change on contingent consideration payable	(382)	(209)
Tax effect of fair value change on purchased call option	–	(789)
Tax effect of tax losses not recognised	23,492	29,807
Tax effect of deductible temporary differences not recognised	257	–
Tax effect of utilisation of tax losses previously not recognised	(4,650)	(6,001)
Tax effect of share of result of a joint venture	–	1
Effect of tax exemption granted to PRC subsidiaries	(12,521)	(3,410)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(2,776)</u>	<u>(4,675)</u>
Income tax expense for the year	<u>6,974</u>	<u>5,450</u>

8. (LOSS) PROFIT FOR THE YEAR

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments	4,433	4,087
Other staff costs	30,189	49,767
Retirement benefit scheme contributions, excluding those of the Directors	<u>2,825</u>	<u>4,547</u>
Total staff costs	<u>37,447</u>	<u>58,401</u>
Auditors' remuneration	2,400	2,600
Depreciation of property, plant and equipment	574	9,080
Depreciation of right-of-use assets	56,671	106,194
Amortisation of intangible assets	19,313	17,557
Short-term lease expenses for premises	3,006	3,450
Cost of television series production	438,686	149,037
Cost of scriptwriters for television series production	26,442	23,769
Cost of services provided for television series production	16,187	27,835
Cost of services provided for film exhibition	26,874	26,978
Cost of artiste and internet celebrity agency business	69,413	97,766
Cost of inventories sold	<u>234</u>	<u>472</u>

9. DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

10. LOSS PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(92,166)</u>	<u>(7,633)</u>
	2022	2021
Number of shares		
Number of ordinary shares for the purpose of basic loss per share	<u>2,595,613,733</u>	<u>2,595,613,733</u>

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

11. GOODWILL AND IMPAIRMENT ASSESSMENT

	Goodwill <i>HK\$'000</i>
COST	
At 1 July 2020	432,622
Exchange adjustments	<u>40,741</u>
At 30 June 2021	473,363
Exchange adjustments	<u>(11,890)</u>
At 30 June 2022	<u><u>461,473</u></u>
IMPAIRMENT	
At 1 July 2020 and 30 June 2021	–
Impairment loss recognised in the year	<u>67,652</u>
At 30 June 2022	<u><u>67,652</u></u>
CARRYING AMOUNTS	
At 30 June 2022	<u><u>393,821</u></u>
At 30 June 2021	<u><u>473,363</u></u>

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount before impairment loss of goodwill allocated to these cash generating units are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Khorgas Group (<i>note a</i>)	419,007	429,805
聞瀾(上海)文化傳媒有限公司 (“Wenlan”) (<i>note b</i>)	<u>42,466</u>	<u>43,558</u>
	<u>461,473</u>	<u>473,363</u>

Notes:

- (a) During the year ended 30 June 2019, the Group acquired the entire equity interest in 霍爾果斯厚海文化傳媒有限公司 (Khorgas Houhai Culture Media Company Limited) and its subsidiary, 北京聚海文化傳媒有限公司 (Beijing Juhai Culture Media Company Limited) (collectively known as the “Khorgas Group”) and goodwill of HK\$411,876,000 was resulted from the acquisition within film and TV series production and distribution segment.

The recoverable amount of Khorgas Group has been determined based on a value in use calculation.

The calculation of the recoverable amount of Khorgas Group uses cash flow projections based on financial budgets approved by management covering a 5-year period and pre-tax discount rate of 25.0% (2021: 26.0%) per annum as at 30 June 2022. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 2.0% (2021: 2.4%) per annum. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and budgeted costs. Such estimation is based on the Khorgas Group's past performance and management's expectations for the market development.

The actual revenue and operating profit of Khorgas Group for the current year did not meet budget primarily due to the impact of COVID-19 pandemic which had resulted in unexpected interruptions in films and TV productions, so the management of the Group assessed the recoverable amount of Khorgas Group to which goodwill is allocated. As at 30 June 2022, the estimated recoverable amount of Khorgas Group was below its carrying amount. Accordingly the Group recognised impairment loss on goodwill amounting to HK\$43,745,000 (2021: Nil) during the year ended 30 June 2022.

- (b) During the year ended 30 June 2020, the Group acquired 60% of equity interest in Wenlan and goodwill of HK\$38,633,000 was resulted from the acquisition within pan entertainment segment.

The recoverable amount of Wenlan has been determined based on a value in use calculation.

The calculation of the recoverable amount of Wenlan uses cash flow projections based on financial budgets approved by management covering a 5-year period and pre-tax discount rate of 24.94% (2021: 27.5%) per annum as at 30 June 2022. Cash flows beyond the 5-year are extrapolated using a steady expected inflation rate of 2.0% (2021: 3%) per annum. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and budgeted costs. Such estimation is based on Wenlan's past performance and management's expectations for the market development.

The actual revenue and operating profit of Wenlan for the current year did not meet budget primarily due to the impact of COVID-19 pandemic which had resulted in unexpected interruptions in artiste management sector, so the management of the Group assessed the recoverable amount of Wenlan to which goodwill is allocated. As at 30 June 2022, the estimated recoverable amount of Wenlan was below its carrying amount. Accordingly the Group recognised impairment loss on goodwill amounting to HK\$23,907,000 (2021: Nil) during the year ended 30 June 2022.

12. INTANGIBLE ASSETS

	Agency contract <i>HK\$'000</i>
COST	
At 1 July 2020	106,805
Exchange adjustments	<u>6,466</u>
At 30 June 2021	113,271
Exchange adjustments	<u>330</u>
At 30 June 2022	113,601
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 July 2020	4,389
Provided for the year	<u>17,557</u>
At 30 June 2021	21,946
Provided for the year	19,313
Exchange adjustments	<u>758</u>
At 30 June 2022	42,017
CARRYING AMOUNTS	
At 30 June 2022	71,584
At 30 June 2021	91,325
Agency contract	

The agency contract is a six-year agency contract associated with Ms. Yang Chaoyue, a famous artiste in the PRC, which is held by Wenlan, a non-wholly owned subsidiary acquired by the Group on 12 March 2020. It is identified as an intangible asset at the date of acquisition of Wenlan and amortised over 6 years. The intangible assets arising from acquisition of Wenlan together with the related goodwill are included in the respective cash generating unit for the purpose of impairment assessment as detailed in note 11.

13. FILM RIGHTS AND TELEVISION SERIES PRODUCTION IN PROGRESS

	Film rights <i>HK\$'000</i>	Television series production in progress <i>HK\$'000</i>
COST		
At 1 July 2020	776,062	203,611
Additions	–	517,215
Transfer upon completion and sold	–	(176,927)
Exchange adjustments	–	14,756
	<u>776,062</u>	<u>558,655</u>
At 30 June 2021	776,062	558,655
Additions	–	249,918
Transfer upon completion and sold	–	(438,686)
Disposal	–	(3,556)
Exchange adjustments	–	966
	<u>776,062</u>	<u>367,297</u>
At 30 June 2022	776,062	367,297
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2020, 30 June 2021 and 2022	<u>776,062</u>	<u>39,875</u>
CARRYING AMOUNTS		
At 30 June 2022	<u>–</u>	<u>327,422</u>
At 30 June 2021	<u>–</u>	<u>518,780</u>

No impairment loss has been recognised on film rights and television series production in progress during both years.

14. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	91,269	78,311
Less: Allowance for credit losses	<u>(3,304)</u>	<u>(1,982)</u>
	<u>87,965</u>	<u>76,329</u>
Other receivables, deposits and prepayments	3,438	7,737
Other receivable from TV series	24,177	37,724
Less: Allowance for credit losses	<u>(648)</u>	<u>(972)</u>
	<u>26,967</u>	<u>44,489</u>
Prepayment for artiste management agency and scriptwriters	16,380	10,503
Prepayments to suppliers	14,779	10,814
Prepayments for cinema operation	397	492
Other tax recoverable	<u>5,664</u>	<u>26,343</u>
	<u>152,152</u>	<u>168,970</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables:		
0 - 30 days	16,289	21,372
31 - 60 days	–	3,226
61 - 90 days	176	381
91 - 180 days	48,865	22
181 - 365 days	22,489	18,478
Over one year	<u>146</u>	<u>32,850</u>
	<u>87,965</u>	<u>76,329</u>

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

As at 30 June 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$71,500,000 (2021: HK\$20,923,000) which are past due as at the reporting date. Out of the past due balances, HK\$22,635,000 (2021: HK\$17,520,000) has been past due 90 days or more and is not considered as in default by considering the background of the debtors and historical payment arrangement. The Group does not hold any collateral over these balances.

15. TRADE AND OTHER PAYABLES

	2022	2021
	HK\$'000	HK\$'000
Trade payables	64,146	88,233
Other payables and accruals	88,731	51,388
Investment funds from investors measured at amortised cost (<i>note i</i>)	–	55,800
Investment funds from investors at FVTPL (<i>note i</i>)	–	10,728
Advances from former shareholder of subsidiaries acquired (<i>note iii</i>)	37,300	38,256
Deposits received (<i>note ii</i>)	–	383
Payable to film producers (<i>note iv</i>)	–	1,587
Accrued services fee for artiste management and TV series production (<i>note v</i>)	11,708	29,994
	201,885	276,369
Less: amount shown under non-current liabilities (<i>note ii</i>)	–	(383)
Amount shown under current liabilities	201,885	275,986

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days	28,874	59,144
Within 61 to 90 days	1,625	11,271
Within 91 to 365 days	27,070	12,694
Over 365 days	6,577	5,124
	<u>64,146</u>	<u>88,233</u>

Notes:

- (i) Investment funds from investors represent investors' entitlement to the return on TV series produced by the Group and the return is either fixed or variable based on contracts with other investors.
- (ii) Deposits received represent deposits received from a cinema circuit operator in Hong Kong for a film to be theatrical release in Hong Kong and licensing deposits received from the licensee which are refundable at the expiry of the licenses.
- (iii) Advances from former shareholder of subsidiaries acquired are non-trade related, unsecured, interest-free and repayable on demand.
- (iv) The amounts represented the payable due to the film producers who placed their films to be released in the Group's film exhibition and the films had completed their theatrical release during the year ended 30 June 2022.
- (v) The amounts represented the accrued services fee payable to the artiste management agency, film director and scriptwriters of TV series production.

16. BANK AND OTHER BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank borrowings:		
Fixed-rate and secured (<i>note i</i>)	44,448	39,600
Variable-rate and secured (<i>note ii</i>)	39,780	–
Variable-rate and unsecured (<i>note ii</i>)	–	1,200
	<u>84,228</u>	<u>40,800</u>
Other borrowings (<i>note iii</i>)	24,873	55,756
	<u>109,101</u>	<u>96,556</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount repayable (based on scheduled repayment terms):		
Within one year or on demand	109,101	78,556
More than one year, but not exceeding two years	–	18,000
	<u>109,101</u>	<u>96,556</u>
Less: Amounts due shown under current liabilities:		
On demand or due within one year	<u>(109,101)</u>	<u>(78,556)</u>
Amounts due after one year	<u>–</u>	<u>18,000</u>

Notes:

- (i) During the year ended 30 June 2022, the Group obtained new fixed rate bank borrowings amounting to approximately HK\$26,898,000 (2021: approximately HK\$45,600,000) and repaid bank borrowings of HK\$21,060,000 (2021: HK\$30,000,000). The bank borrowings are secured by bank deposits of HK\$ 26,850,000 (2021: HK\$21,000,000) and guaranteed by an insurance company in the PRC.
- (ii) During the year ended 30 June 2022, the Group obtained new fixed rate bank borrowings amounting to approximately HK\$39,780,000 (2021: approximately HK\$1,200,000). The bank borrowings are secured by bank deposits of HK\$ 40,000,000 (2021: Nil) and guaranteed by an insurance company in the PRC.

- (iii) During the year ended 30 June 2021, Khorgas Houhai Culture Media Company Limited (“Khorgas Houhai”), a wholly owned subsidiary of the Company, borrowed a loan of RMB45,000,000 (equivalent to HK\$55,756,000) from a third party company, bearing interest at 15% per annum.

During the year ended 30 June 2022, Khorgas Houhai repaid the loan of RMB30,482,000 (equivalent to HK\$35,664,000) (2021: Nil). The maturity date of the loan has extended to 31 December 2022 during the year ended 30 June 2022. The loan is secured by the Group’s trade receivables amounting to RMB16,731,000 (equivalent to HK\$19,575,000) (2021: RMB19,705,000 (equivalent to HK\$23,647,000)) as at 30 June 2022.

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

	2022	2021
Fixed-rate bank borrowings: RMB denominated borrowings	3.6% to 5.0%	3.6% to 4.8%
Variable-rate bank borrowings: RMB denominated borrowings	3.5% to 5.0%	4.15%

17. LOANS FROM RELATED COMPANIES

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Loans from related companies		
– Loan 1 (<i>note i</i>)	30,677	29,532
– Loan 2 (<i>note ii</i>)	9,993	104,473
– Loan 3 (<i>note iii</i>)	–	54,987
	<u>40,670</u>	<u>188,992</u>
Analysed as:		
Current liabilities	9,993	–
Non-current liabilities	30,677	188,992
	<u>40,670</u>	<u>188,992</u>

Notes:

- (i) The balance as at 30 June 2022 represents a loan of RMB23,000,000 (equivalent to HK\$26,910,000) (30 June 2021: RMB23,000,000 (equivalent to HK\$27,600,000)) plus accrued interest of RMB3,220,000 (equivalent to HK\$3,767,000) (30 June 2021: RMB1,619,000 (equivalent to HK\$1,932,000)) from Guangzhou Puji Real Estate Agency Co. Limited (“Guangzhou Puji”). The loan advance is unsecured, interest-bearing at 7% per annum and repayable in July 2022. In December 2021, the maturity date of the loan was extended to July 2023.
- (ii) The balance as at 30 June 2022 represents interest payables of RMB8,541,000 (equivalent to HK\$9,993,000) (30 June 2021: loans of RMB78,520,000 (equivalent to HK\$94,224,000) plus accrued interest of RMB8,541,000 (equivalent to HK\$10,249,000)) from Guangzhou Black Hole Investment Limited (“Black Hole”), a company in which Mr. Zhang has controlling interests.

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

- (iii) During the year ended 30 June 2021, Guangzhou Daide borrowed loan of RMB12,000,000 (equivalent to HK\$14,400,000) and loan of RMB38,680,000 (equivalent to HK\$46,416,000) from Guangzhou Puji. The loan advances are unsecured, interest-free and repayable in July 2022 and February 2023 respectively. Guangzhou Daide borrowed additional loan of RMB8,310,000 (equivalent to HK\$9,972,000) from Guangzhou Puji in July 2021, which is unsecured, interest-free and repayable in July 2023.

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

18. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.0025 each:		
Authorised:		
At 1 July 2020, 30 June 2021 and 30 June 2022	<u>32,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 July 2020, 30 June 2021 and 30 June 2022	<u>2,595,613,733</u>	<u>6,489</u>

19. PERPETUAL BONDS

On 1 July 2021 and 13 July 2021, Guangzhou Daide issued perpetual bonds amounting to RMB78,520,000 (equivalent to HK\$94,224,000) and RMB58,990,000 (equivalent to HK\$70,788,000), respectively to Black Hole and Guangzhou Puji for the purpose of repaying the outstanding loan balance. On 1 July 2021 and 31 July 2021, Guangzhou Daide and the Company issued perpetual bonds amounting to RMB35,000,000 (equivalent to HK\$42,000,000) and HK\$45,000,000 to Mr. Zhang respectively, for the purpose of repaying the outstanding loan balance. On 7 March 2022, the Company issued perpetual bonds amounting to HK\$8,000,000 to Mr. Zhang. The perpetual bonds are redeemable at the issuer's option on or after 30 June 2025.

Interests are payable annually in arrears at a fixed rate of 4.5% per annum, which may be deferred at the Issuers' discretion and in which event, the Company and the Issuers will not declare or pay any interests or redeem, reduce, cancel or buy back or otherwise acquire any of the Company's and/or the Issuer's securities of lower or equal rank.

The Group is considered to have no contractual obligations to call its principal or to pay any interests. The perpetual bonds do not meet the definition of financial liabilities. They are classified as equity instruments and any distributions made by the Group to the holders are also recognised in equity in the consolidated financial statements of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) film, TV series and variety show production, distribution and licensing of film rights; (ii) film exhibition; and (iii) pan entertainment. The Group mainly produces Chinese films, variety shows and TV series in both Mainland China and Hong Kong as its main markets. It also currently operates one Hong Kong based cinema. During the year ended 30 June 2022, the Group further advanced the “Stay-at-Home Economy” and its brand diversification development strategy. The Group’s proportion of revenue from Mainland China increased by 8.5 percentage points year-on-year to approximately 92.2% from approximately 83.7% last year. Mainland China continues to be the major source of income and business growth of the Group.

Film, TV series and variety show production and distribution

Following the development dynamics of the industry and the entertainment tastes of young viewers, the Group has continued to focus on the development and production of outstanding variety contents, while actively exploring innovative business models such as web series, online movies and short videos. For the year ended 30 June 2022, the film, TV series and variety show production and distribution business remained as the core business of the Group with recorded revenue of approximately HK\$507.8 million, representing a substantial increase of approximately 147.3% as compared to last year. The increase was mainly attributable to the smooth broadcasting of the inspiring urban workplace TV series “The Ideal City” (理想之城), the megahit detective reality show “The Detectives’ Adventures” (萌探探探案) and the love-story variety show “I Love You, Me Too” (喜歡你，我也是) Season 3 in August 2021, May 2021 and April 2022 respectively.

“The Ideal City” (理想之城) was smoothly broadcasted on the video website iQIYI and various first-tier TV stations of the country, ranking first in CSM 63 TV series viewership rankings and being awarded over 10 industry honours and awards, including being shortlisted for the 2018-2022 List of Key TV Series Planning and Theme of the National Radio and Television Administration and being rated “2021 Outstanding Show Broadcasting Overseas” by the National Radio and Television Administration. “The Detectives’ Adventures” (萌探探探案) innovatively integrates the interpretation of film and TV classics into script killing, establishing a variety show model with detective theme which targets audiences across all age groups; it was also awarded multiple industry awards, including the internet variety show of the year at 2021 Cloud+ Rankings and the innovative variety show of the year award at The Sixth New Entertainment•New Consumption Annual Summit. Moreover, the scriptwriter and director teams of the Group had been engaged in the development and production of various trending TV shows during the year, including “Love Destiny” (天生一對), “Hit Me Once Again, Dad” (爸爸再打我一次), “Meal Gathering” (飯局), “Lady Constable” (女捕快), “The Oriental Hades” (城隍爺), “Never Give Up” (今日宜加油), “Pagoda” (浮屠塔) and “Xu Chunchun’s Camellia Luck” (許純純的茶花運).

Film exhibition

Considering that the novel coronavirus disease (“COVID-19”) pandemic has brought about a challenging business environment for the film exhibition business, the Group had disposed of its partial equity interests in the film exhibition business aiming to reallocate financial resources to other businesses with higher development potential, with the purpose of generating better returns for the shareholders of the Company (the “Shareholders”). The disposal transaction was completed on 26 May 2021. Thereafter, in accordance with a management agreement and a supplemental agreement entered into among the Group, Cinema City (WL) Limited and Mandarin Motion Pictures Limited, the Group earned fees for the operation of Langham Place Cinema in Hong Kong during the term of the agreement. The management believes that the above-mentioned strategic measures will have a positive impact on the Group’s future results and financial performance. For further details of the disposal and the management agreement, please refer to the announcements of the Group dated 18 January 2021 and 26 May 2021, respectively.

Due to the effect of the above disposal transaction, the Group’s film exhibition revenue decreased by approximately 13.0% to approximately HK\$54.7 million for the year as compared to last year, accounting for approximately 7.8% of the Group’s total revenue.

Pan entertainment and other business

During the year ended 30 June 2022, the Group continued to improve its industry chain and broaden its revenue base and the influence of the Group’s artistes and celebrities in market segments continued to grow. The Group’s artistes participated in the starring and endorsement activities of various TV series and films. Among which, Yang Chaoyue starred in the costume TV dramas “Chong Zi” (重紫) and “Momentary Impulsiveness and Perpetual Eudaimonia” (一時衝動七世吉祥); whereas Li Yitong starred in various TV series including “Warm on a Cold Night” (九霄寒夜暖), “Mission of the Special Agent” (特工任務) and “Punch Out” (狂飆).

The Group’s pan entertainment and other businesses recorded a total revenue of approximately HK\$141.4 million for the year, representing a decrease of approximately 25.1% as compared to approximately HK\$188.8 million last year. This business segment recorded a profit of approximately HK\$28.7 million for the year ended 30 June 2022 (year ended 30 June 2021: a profit of approximately HK\$41.0 million).

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group for the year amounted to approximately HK\$704.0 million, representing an increase of approximately HK\$247.0 million or 54.0% as compared to last year, mainly contributed by the revenue of approximately HK\$507.8 million and HK\$141.4 million from the film and TV series production and distribution segment, and the pan entertainment and other businesses segment respectively.

For the film and TV series production and distribution segment, the Group's recorded revenue for the year ended 30 June 2022 was mainly contributed by the production of TV series and variety shows. The inspiring urban workplace TV series "The Ideal City" (理想之城), the megahit detective reality show "The Detectives' Adventures" (萌探探探案) and the love-story variety show "I Love You, Me Too" (喜歡你，我也是) Season 3 were smoothly broadcasted in August 2021, May 2021 and April 2022 respectively, the revenue from which was recognised this year, driving a significant year-on-year increase in revenue for this segment. For the film exhibition segment, the Group completed the disposal of its partial equity interests in the film exhibition business on 26 May 2021, and entered into a management agreement and a supplemental agreement for the operation of the Langham Cinema in Hong Kong, whereby a year-on-year decrease in revenue of this segment was recorded. For the pan entertainment and other businesses segment, the Group recorded a total revenue of approximately HK\$141.4 million from artiste management services and sale of merchandise under self-owned retail brands during the year ended 30 June 2022, representing a decrease of approximately 25.1% as compared to last year.

Gross profit of the Group was approximately HK\$126.1 million, representing a decrease of approximately HK\$5.0 million or approximately 3.8% as compared to last year. Gross profit margin for the year was approximately 17.9%, representing a decrease of approximately 10.8 percentage points as compared to last year. The smooth broadcasting of the inspiring urban workplace TV series "The Ideal City" (理想之城), the megahit detective reality show "The Detectives' Adventures" (萌探探探案) and the love-story variety show "I Love You, Me Too" (喜歡你，我也是) Season 3 in August 2021, May 2021 and April 2022 respectively generated revenue which was recognised this year, driving a year-on-year significant increase in revenue for the film and TV series production and distribution segment, whereby the proportion of the revenue of this segment to the Group's total revenue increased to 72.1% for the year. Also, the Group completed the disposal of its partial equity interests in the film exhibition business on 26 May 2021, whereby the proportion of the revenue of the film exhibition segment to the Group's total revenue decreased to approximately 7.7% for the year. Since the gross profit margin of the film exhibition segment is higher than that of the film and TV series production and distribution segment, the Group's overall gross profit margin decreased.

Other gains and losses and other income

During the year ended 30 June 2022, other gains and losses and other income amounted to approximately HK\$65.8 million, representing a decrease of approximately HK\$120.0 million or approximately 64.5% as compared to last year, mainly due to the gain on the disposal of its partial equity interests in the film exhibition business during the year ended 30 June 2021, the rent concession from landlords and the government grant from the Hong Kong Government received by our cinemas last year, since the relevant revenue was substantially decreased for the year.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$75.2 million or 47.1% from approximately HK\$159.5 million last year to approximately HK\$84.2 million for the year, which was mainly due to the fact that the Group completed the disposal of its partial equity interests in the film exhibition business on 26 May 2021, thereby reducing the sales and distribution expenses of the film exhibition business.

Administrative expenses

Administrative expenses slightly increased by approximately HK\$0.2 million or approximately 0.2% from approximately HK\$82.4 million last year to approximately HK\$82.6 million for the year, benefiting from the effective internal control measures on costs.

Loss for the year

This year, the Group's loss and total comprehensive expense attributable to the owners of the Company amounted to approximately HK\$92.2 million (year ended 30 June 2021: loss of approximately HK\$7.6 million) and approximately HK\$102.9 million (year ended 30 June 2021: total comprehensive income of approximately HK\$16.5 million) respectively.

The increase in loss for the year was mainly attributable to (i) delay in the productions of various TV series and variety shows of the Group due to the impact of the COVID-19 pandemic and the restrictive quarantine and travel measures, and the uncertainty in future income under a challenging market environment, which led to an impairment on goodwill of approximately HK\$43.7 million in the film and TV series production and distribution segment for the year; (ii) the reduction in starring and commercial activities due to the impact of the COVID-19 pandemic, causing an increased uncertainty in future income from artiste management business, which led to an impairment on goodwill of approximately HK\$23.9 million in the pan entertainment and the other segment for the year; and (iii) the decrease in income and profit for the year of Wenlan, a non-wholly-owned subsidiary of the Company, as compared to last year due to the impact of the COVID-19 pandemic, causing the fair value of purchased call option to decrease by approximately HK\$16.8 million.

IMPAIRMENT LOSS ON GOODWILL (THE “IMPAIRMENT”)

Background

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

The Impairment of the Khorgas Group and Wenlan amounting to approximately HK\$43.7 million and HK\$23.9 million, respectively, was made for the year (30 June 2021: HK\$Nil and HK\$Nil, respectively), which was determined after considering the difference between the recoverable amount based on value in use calculations and the carrying value as at 30 June 2022.

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

Circumstances leading to the Impairment

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

- (a) the ongoing implementation of restrictive COVID-19 measures in the PRC, including city-wide lockdowns in Shanghai and certain other cities, compulsory COVID-19 testing, social distancing and isolation rules, work-from-home arrangement, mandatory closures of movie theatres and certain non-essential venues and so on in relation to the COVID-19 outbreaks since the first quarter of 2020;

- (b) the adverse impact of COVID-19 pandemic on the film and TV industry and the consumption atmosphere in the PRC leading to the slowdowns and postponements in shooting of movies and TV series, which had significant adverse impact on the progress and original schedules of the film and TV productions as well as the artistes' work schedules;
- (c) the adverse impact of COVID-19 pandemic on the financial performance of the peers in the media and entertainment industry and certain online streaming platforms, and further cost control measures are expected to be taken by industry participants;
- (d) the implementation of certain government restrictive rules and regulations such as imposing a cap on the salaries of actors and actresses, a cap on the maximum number of episodes of each TV drama, etc.;
- (e) the review and comparison of the budgets of the Khorgas Group and Wenlan prepared for the year and the actual revenue and profit generated from the Khorgas Group and Wenlan during the year, from which a shortfall from the projected revenue and operating profit was found, preliminarily due to the impact of COVID-19 pandemic which had resulted in unexpectable interruptions in films and TV productions and artistes' work schedules as stated above; and
- (f) the need to adopt a reasonable approach in evaluating the cashflow to be generated from the Khorgas Group and Wenlan by the adoption of a pre-tax discount rate of 25.0% and 24.9% respectively (30 June 2021: 26.0% and 27.5% respectively) with reference to the use of weighted average costs of capital when the recoverable amount was determined based on value in use calculations.

The above factors were identified close to the end of the years ended 30 June 2022 and 30 June 2021 and were assessed and considered during the course of the preparation of the annual financial information of the Khorgas Group and Wenlan for the years ended 30 June 2022 and 30 June 2021.

The method, basis and key assumptions used in determining the amount of the Impairment and the recoverable amount

The Impairment relied on the assessment based on the discount cash flow method (“DCF”). DCF is adopted because:

- (a) the entire carrying amount of the CGUs was tested for impairment in accordance with the HKAS 36 issued by the HKICPA by comparing its recoverable amount with its carrying amount; and
- (b) the Group adopted the DCF method under the income-based approach in arriving at the value in use. According to the HKAS 36, measuring value in use of an entity should consider an estimate of the future cash flows the entity expects to derive from the CGUs. Therefore, the Company adopted the DCF.

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

- (a) the Group recognised the impairment loss on goodwill due to the deteriorating economic environment brought by the COVID-19 pandemic in the film and TV series productions, licensing and distribution business as well as artiste management sector;
- (b) the economic downturn and the negative impact of COVID-19 pandemic will be a mid-to-long term issue and the financial performance of online streaming platforms and occupancy rate of the cinemas will not expectably rebound in a short period taking into account the challenging global and the PRC economic environment and declining financial performance of the industry peers as well as the uncertainties brought by the COVID-19 pandemic;
- (c) the interest rate of the banking facilities obtained by the Group for the operation of the Khorgas Group and Wenlan will not decrease substantially in the foreseeable period and hence affecting the discount rate used when adopting the DCF approach; and

- (d) for the impairment testing, the recoverable amount was determined based on value in use calculations which was performed by the management. The cash flow projection of the Khorgas Group was based on financial budgets approved by the management of the Company covering a five-year period and a pre-tax discount rate of 25.0% (30 June 2021: 26.0%). The Group's management estimated that the Khorgas Group's revenue from films and TV series would be recognised and received in the later years of forecast periods after taking into consideration the factors stated in "Circumstances leading to the Impairment" as compared to the previous years' financial budgets. The impairment was primarily due to the postponement in shootings, post productions and release dates of certain films and TV dramas to the later years of the forecast periods, although these films and TV dramas were originally planned to complete in the earlier years of the forecast periods. The key assumption includes the future expected cash flows based on management's view of future business prospects and historical performance of the Khorgas Group.

In addition, the cash flow projection of Wenlan was based on financial budgets approved by the management of the Company covering a five-year period and a pre-tax discount rate of 24.9% (30 June 2021: 27.5%). The Group's management estimated that Wenlan's revenue from artiste management business would drop during the forecast periods after taking into consideration the factors stated in "Circumstances leading to the Impairment" as compared to the previous years' financial budgets. Management prudently predicted that there would be no significant revenue growth in the forecast period. The key assumption includes the future expected cash flows based on management's view of future business prospects and historical performance of Wenlan.

Taking into account the above factors and the reasonable approach of adopting the relevant accounting standard and the more suitable discount rate when making cash flow projections, the Board considers that the Impairment is fair and reasonable. Under the current challenging environment of film and TV productions, distribution and licensing business and artiste management business brought by the COVID-19 pandemic, the Group's management will closely monitor the market situations and adjust business strategy timely.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group's bank balances and cash amounted to approximately HK\$103.5 million (30 June 2021: approximately HK\$103.8 million), which are denominated mainly in HK\$, United States Dollar ("US\$") and Renminbi ("RMB").

As at 30 June 2022, the Group's total debts, including bank and other borrowings, bonds payable, loans from related companies and a controlling shareholder amounted to approximately HK\$109.1 million, approximately HK\$14.3 million, approximately HK\$40.7 million and HK\$Nil, respectively (30 June 2021: approximately HK\$96.6 million, approximately HK\$27.6 million, approximately HK\$189.0 million and approximately HK\$38.6 million, respectively). As at 30 June 2022, the gearing ratio, representing the ratio of total debts to total assets, was approximately 13.0% (30 June 2021: approximately 21.6%).

On 16 May 2019, 16 September 2019 and 24 February 2020, the Group and Royston Securities Limited (the "Placing Agent") entered into a placing agreement, pursuant to which the Placing Agent conditionally agreed to procure, on a best efforts basis, places to subscribe in cash for the bonds in an aggregate principal amount of up to HK\$150,000,000 during the placing period. Details of the placing of bonds are set out in the announcements of the Company dated 16 May 2019, 16 September 2019, 24 February 2020 and 21 August 2020 respectively. As at 30 June 2022, the Group's bonds payable amounted to approximately HK\$14.3 million (30 June 2021: approximately HK\$27.6 million).

As at 30 June 2022, the Group had total non-current assets of approximately HK\$601.5 million (30 June 2021: approximately HK\$793.2 million), net current assets of approximately HK\$62.3 million (30 June 2021: net current liabilities of approximately HK\$31.3 million) and net assets of approximately HK\$399.0 million (30 June 2021: approximately HK\$249.8 million). The current ratio of the Group, representing the ratio of current assets to current liabilities, was approximately 1.10 as at 30 June 2022 (30 June 2021: approximately 0.96).

During the year ended 30 June 2022, the Group mainly funded its liquidity by bank and other borrowings, bonds, loans from related companies and the controlling shareholder, and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2022, the Group did not hold any significant investment projects, and there was no material acquisition or disposal of subsidiaries and associates.

HUMAN RESOURCES

As at 30 June 2022, the Group employed a total of 140 permanent employees (30 June 2021: 220) in Mainland China and Hong Kong. During the year ended 30 June 2022, the total salaries and wages, including the Directors' remuneration and part-time workers' salary, amounted to approximately HK\$37.5 million (30 June 2021: approximately HK\$58.4 million).

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

CHARGE ON ASSETS

As at 30 June 2022, the Group had bank deposits amounting to approximately HK\$0.7 million (30 June 2021: approximately HK\$0.7 million) that were pledged to banks for the bank guarantee provided to a subsidiary of the Group regarding its due payment under a cinema equipment rental agreement. The Group's bank borrowings of RMB44,000,000 (equivalent to approximately HK\$51,480,000) were secured by pledged bank deposits of HK\$61,000,000 and guaranteed by an insurance company in the PRC, and the bank borrowings of RMB 19,990,000 (equivalent to approximately HK\$23,388,000) were secured by pledged bank deposits of RMB5,000,000 (equivalent to approximately HK\$5,850,000), and loan advances of RMB21,000,000 (equivalent to approximately HK\$24,600,000) from a third party company were secured by trade receivable amounting to RMB16,731,000 (equivalent to approximately HK\$19,575,000).

TREASURY POLICY

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

CAPITAL COMMITMENT

As at 30 June 2021 and 2022, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2021 and 2022, the Group did not have any significant contingent liabilities.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 30 June 2022 (30 June 2021: Nil).

OUTLOOK

Looking forward, the Group will continue to focus on the development of film and television production business as well as artiste and celebrity agency business in Mainland China, and will strive to establish a pan-entertainment business ecosphere and integrate upstream and downstream industry chains by proactively expanding various realization channels from downstream industry chains in a bid to attain its strategic plan of firmly combining its strengths and resources. Taking advantages of the rich collaboration resources of online platforms for cultivating new artistes and celebrities, the Group will also proactively explore and develop its self-owned retail brand targeting young consumers to further diversify the revenue base by continuously identifying business opportunities in relation to the “Stay-at-Home Economy” on four aspects including online streaming, short videos, celebrity cultivation and traffic monetization.

A number of the projects of the Group are currently under preparation, including the urban mystery-solving TV series “Frozen Surface” (黑土無言) and the love-story variety show “Adventure in Winter” (愛的高級道). The Group also plans to produce a spin-off programme of “I Love You, Me Too” (喜歡你，我也是) given its satisfactory viewership and popular online reception, with a view to creating self-owned brands in variety shows with richly diversified contents. In addition, the Group will proceed to the development and production of a series of highly popular copyrights, such as “Romance in the City” (半城風月), “Queen of the Sea” (女船王) and “Locard’s Theory” (洛卡爾定律).

As an enterprise with diversified development having a focus on film, television and variety show content creation and production with the spirit of business value “Enabling”, the Group will consolidate resources in scriptwriting, directing and celebrity to cultivate artistes, incubate, explore and create popular film and television copyrights by continuously offering quality content in order to develop its self-owned full industry chain model and build up a unique soft power, thereby continuously enhancing profitability, sharpening competitive edges in the industry and generating favorable long term returns for the Shareholders.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 30 June 2022.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. The Company complied with all the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year ended 30 June 2022, except for the deviation as mentioned below.

Pursuant to Code Provision E.1.2 (re-numbered to Code Provision F.2.2 under the new CG Code which came into effect on 1 January 2022) of the CG Code, the Chairman of the Board should attend the annual general meeting. Mr. Zhang Liang, Johnson, Chairman of the Board was unable to attend the 2021 AGM due to his other important commitment. Mr. Lee Hin Kwong, Patrick, an executive Director chaired the 2021 AGM and opened to be questioned from the Shareholders.

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

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

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made specific enquires, all Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the year ended 30 June 2022.

EVENTS AFTER REPORTING PERIOD

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

AUDIT COMMITTEE

The Audit Committee of the Company (the “Audit Committee”) has three members comprising three independent non-executive Directors, namely Mr. Chang Eric Jackson (Chairman of the Audit Committee), Mr. Wang Bo and Mr. Xiang Feng, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are mainly to communicate with external auditors; to review the remuneration, terms of engagement, independency and objectivity of the external auditors; to review the accounting policy, financial position and financial reporting procedures of the Company; and to review and assess the financial reporting, risk management and internal control systems of the Company and making recommendation thereof. The final results of the Group for the year ended 30 June 2022 have been reviewed by the Audit Committee and a meeting of the Audit Committee has been held with the Company’s auditor for reviewing the final results of the Group for the year ended 30 June 2022.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 30 June 2022 as set out in this preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 27 September 2022. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting (“AGM”) of the Company will be held on Friday, 25 November 2022 at 3:00 p.m. The register of members of the Company will be closed from Tuesday, 22 November 2022 to Friday, 25 November 2022, both days inclusive. In order to ascertain Shareholders’ eligibility to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Monday, 21 November 2022.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the websites of the Company (www.transmit-ent.com) and the Stock Exchange (www.hkexnews.hk). The Annual Report 2021/22 will be dispatched to the Shareholders in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the year ended 30 June 2022. I would also like to express heartfelt gratitude on behalf of the Group to all of our customers and suppliers, and wish for their continuous support in the future. We will keep working closely with the Shareholders and our employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group’s development.

On behalf of the Board
Transmit Entertainment Limited
Zhang Liang, Johnson
Chairman and Executive Director

Hong Kong, 27 September 2022

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