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英皇文化產業集團有限公司
Emperor Culture Group Limited

Incorporated in Bermuda with limited liability

(Stock Code: 491)

2019/2020 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**” or “**Directors**”) of Emperor Culture Group Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 30 June 2020 (the “**Year**”).

RESULTS

During the Year, the Group’s total revenue decreased by 13.4% to HK\$126.2 million (2019: HK\$145.8 million) despite the Group had increased 6 cinemas. This was mainly due to controls on visits and suspension of services as a result of the outbreak of COVID-19 pandemic (the “**Pandemic**”) since early 2020.

Amid the Pandemic, the Group has actively taken all necessary measures to mitigate the adverse financial impact. The Group strived for costs saving by continuously negotiating with landlords for rental reduction and staff cost reduction measures; and boosting sales by enhancing customer engagement activities and launching promotional programs.

Nevertheless, the Group incurred a net loss for the Year amounting to HK\$353.2 million (2019: HK\$134.3 million), including a provision for impairment of its cinema assets amounted to HK\$92.0 million (2019: Nil). The significant increase in the loss was mainly attributable to the provision for impairment, the increase of operating expenses arising from the opening of new cinemas, and a decline in film exhibition revenue.

Basic loss per share was HK\$0.11 (2019: HK\$0.04).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group principally engages in entertainment, media and cultural development businesses, which include (i) cinema operation; and (ii) investment in films and a variety of cultural events.

MARKET REVIEW

The film exhibition market experienced unprecedented challenges during the Year. During the period between July and December 2019, the entertainment market as a whole was broadly stable and market development was on track. However, due to the Pandemic since early 2020, various control measures affecting patrons were imposed globally. The cinema operations in Hong Kong and Malaysia were suspended for a period of time, while all the cinemas in mainland China were closed since 25 January 2020 during the Year. People generally refrained from visiting these venues because of public health concerns, resulting in a drastic drop in the number of audiences as well as box office revenue. Film production and movie launches were also generally delayed. Hence, the business environment of film production and exhibition related sectors were seriously affected.

BUSINESS REVIEW

Film Exhibition

During the Year, revenue from the film exhibition segment was HK\$126.2 million (2019: HK\$143.0 million). Although there were 6 newly operated cinemas during the Year, the revenue from this segment was severely affected by the Pandemic.

As at 30 June 2020, the Group ran 11 (2019: 5) cinemas in mainland China, Hong Kong and Malaysia under “*Emperor Cinemas*”, offering a total of 95 (2019: 54) houses with more than 12,400 (2019: 6,200) seats, all of which are situated in strategic locations providing premium entertainment services. The details of the film exhibition network as at 30 June 2020 are listed on the next page.

	<i>No. of houses</i>	<i>No. of seats</i>
Mainland China		
1. Emperor Group Centre, Beijing	10	1,154
2. Shin Kong Place, Chongqing	18	2,298
3. MixC, Hefei	13	1,980
4. East Pacific Shopping Mall, Shenzhen	9	458
5. Shanshan Outlet Plaza, Ganzhou	9	1,500
6. Wenjiang Shin Kong Place, Chengdu	10	1,836
Hong Kong		
7. New Town Commercial Arcade, Tuen Mun	4	385
8. MOSTown, Ma On Shan	4	435
9. iSQUARE, Tsim Sha Tsui	5	979
10. Citywalk, Tsuen Wan	5	669
Malaysia		
11. R&F Mall Johor Bahru	8	743
Total	95	12,437

Located in either large-scale commercial and entertainment complex or upscale residential areas, the cinemas of the Group are positioned as high-end premium cinemas equipped with advanced technologies including IMAX® theatre system, ScreenX, 4DX or MX4D motion systems, D-Box seats and Dolby Atmos audio system. They also feature VIP houses and VIP lounges, where the audiences can enjoy premium and exclusive entertainment services.

The “*Emperor Cinemas*” in iSQUARE, Tsim Sha Tsui, Hong Kong, which commenced operation in December 2019, features VIP house “*the CORONET*”, offering guests a 5-star experience in an intimate setting, coupled with gourmet delights prepared by master chefs. Each chair features a service button, enabling service ambassadors to promptly attend to guests during screenings. In addition, its IMAX® House has the biggest IMAX® with Laser screen in Hong Kong, together with a new-generation IMAX® with Laser projection system, creating a remarkable visual experience for audiences.

Investment in Films and Cultural Events

During the Year, the segment did not generate any distribution and licensing income from animation business as it was disposed of in June 2019. Hence, the segment revenue was nil (2019: HK\$2.8 million) for the Year. Nevertheless, the Group recorded an increase in fair value of investments in film productions of HK\$0.4 million (2019: decrease in fair value of HK\$8.0 million) during the Year.

PROSPECTS

In the light of an unfavourable business environment in the near term, the Group will implement more promotions, to drive visitations and ticket sales. The Group will enhance customer loyalty engagements with extended use of social media channels. The Group will adhere to its prudent approach, promptly react to market changes, and take appropriate measures to improve its overall operating efficiency. The Group expects that traffic will gradually pick up as soon as the health quarantine measures are eased, and various world-class and regional movies with renowned casts to be released accordingly in the near future.

Leveraging its long established “*Emperor*” brand label as well as synergy with Emperor Entertainment Group artistes, the Group will continue to roll out branding and marketing campaigns, to enhance its brand exposure and maximise the reach to target customer groups, in order to strengthen its position in the industry and maintain stable business growth in the long-term.

FINANCIAL INFORMATION

Liquidity and Financial Resources

As at 30 June 2020, the Group’s cash and cash equivalents amounted to HK\$40.6 million (2019: HK\$166.5 million), which are mainly denominated in Hong Kong dollars, Renminbi and Malaysian Ringgit.

To finance its operations and capital expenditure, the Group utilises cash flow generated from operations and from loan facilities granted by a related party and a bank. As at 30 June 2020, the Group had total borrowings of HK\$191.9 million (2019: HK\$43.6 million), which comprise a loan from a related party of HK\$146.3 million (2019: Nil), bank loan of HK\$2.0 million (2019: Nil) and amount due to non-controlling interests of HK\$43.6 million (2019: HK\$43.6 million), respectively. Except for the amount due to non-controlling interests, which is unsecured, interest-free and was provided with an agreement not to demand repayment within 12 months from the date of the end of the Year, all these borrowings are unsecured, interest-bearing and have fixed repayment terms. The gearing ratio of the Group (expressed as a percentage of total borrowings over net assets attributable to owners of the parent) was 65.3% (2019: 7.0%) as of 30 June 2020. Such increase is mainly due to the increase in total borrowings for expansion of cinema operation as well as the decrease in net asset value affected by the Pandemic.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The Group’s cash and bank balances, income and expenditure are primarily denominated in Hong Kong dollars, Renminbi and Malaysian Ringgit. As most of the Group’s assets, liabilities and transactions were transacted at and denominated in the functional currency of its foreign operations, the Group did not expose to significant fluctuation in foreign exchange rates during the Year.

OTHER INFORMATION

Mandatory Unconditional Cash Offer

Upon completion of acquisition of 585,980,000 issued shares of the Company (the “**Shares**”) by Emperor Culture Group Holdings Limited (the “**Offeror**”), the controlling shareholder of the Company, from Win World Profits Limited, an associate of and a party acting in concert with the Offeror and several independent third parties on 12 November 2019, the Offeror and parties acting in concert with it were interested in approximately 51.35% of the entire issued share capital of the Company.

Pursuant to Rule 26.1 of the Code on Takeovers and Mergers (“**Takeovers Code**”) issued by the Securities and Futures Commission of Hong Kong, the Offeror had made a mandatory unconditional cash offer (the “**Offer**”) for all the Shares, other than those already owned and/or agreed to be acquired by the Offeror or parties acting in concert with it (the “**Offer Share(s)**”). The offer price for each Offer Share was HK\$0.08 in cash and the Offer was unconditional in all respects.

From the commencement of the offer period and up to the closing date of the Offer (i.e. 10 January 2020) (“**Closing Date**”), the Offeror had made on-market purchases of an aggregate of 217,760,000 shares, representing approximately 6.78% of the total issued Shares. During the Offer period, there were valid acceptances in respect of 503,373,094 Offer Shares under the Offer, representing approximately 15.67% of the Shares as at the Closing Date of the Offer. Taking into account the valid acceptances in respect of the aforesaid Offer Shares under the Offer, the Offeror and parties acting in concert with it held an aggregate of 2,371,313,094 Shares, representing approximately 73.80% of the Shares of the Company right after the close of the Offer.

Details of the Offer were set out in the joint announcement made by the Company and the Offeror dated 15 November 2019 and 10 January 2020, as well as in the composite document issued by the Company dated 20 December 2019.

Possible Acquisition of Shares of SMI Culture & Travel Group Holdings Limited (“SMI Culture” or the “Target Company”)

On 24 February 2020, a wholly-owned subsidiary of the Company (“**Potential Purchaser**”) issued a letter of intent to the receivers of SMI Culture (the “**Receivers**”) for the potential acquisition of all or certain of 829,185,517 shares (the “**Received Shares**”) of the Target Company (“**Possible Acquisition**”), representing approximately 52.51% of its issued share capital. Such letter of intent is non-legally binding in nature. In the event such Possible Acquisition is concluded, the Potential Purchaser may incur an obligation to conduct the mandatory general cash and/or securities exchange offer for all the issued shares and relevant securities of the Target Company (other than those which may be acquired or agreed to be acquired by the Potential Purchaser and parties acting in concert with it), pursuant to the Takeovers Code. In the event that no acquisition of the Received Shares from the Receivers is concluded or a percentage of the Target Company’s shares falling short of triggering a mandatory general offer is acquired, the Potential Purchaser might nevertheless make a voluntary offer for the shares and other securities of the Target Company (the “**Possible Voluntary Offer**”) pursuant to the Takeovers Code.

The Potential Purchaser is currently conducting a due diligence review on the Received Shares and the Target Company and its subsidiaries (collectively, the “**Target Group**”), and is in the process of ascertaining the position with major creditors of the Target Group and the possibility of restructuring the debts or debt securities owed by the Target Group to them. Given that there is difficulty in obtaining necessary financial information and due diligence documents of the Target Group, this imposed limitations to the discussion. Negotiations and discussions between the Potential Purchaser and the Receivers regarding the Possible Acquisition are still ongoing. Due to, among other factors, the Pandemic, slow response time from the management of the Target Group and extra time needed to assess the position of the Received Shares, a longer period of time for due diligence regarding the Received Shares and the Target Group is required.

Details of the progress with the Possible Acquisition have been made in the joint announcements of the Company and the Potential Purchaser dated 26 February 2020, 25 March 2020, 24 April 2020, 25 May 2020, 26 June 2020, 24 July 2020, 25 August 2020 and 25 September 2020.

In the event that the Possible Acquisition is successful, either through the mandatory cash and/or securities exchange offer or the Possible Voluntary Offer, the Target Company will become a subsidiary of the Company. The results and financial position of the Target Group will then be consolidated to the Group.

As at the date of this results announcement, the Potential Purchaser has not yet concluded this Possible Acquisition, and no formal agreements has been entered into in respect of the Possible Acquisition and the Possible Voluntary Offer.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group’s number of employees was 502 (2019: 333). Total staff costs including the Directors’ remuneration during the Year were HK\$64.8 million (2019: HK\$53.7 million). Employees’ remuneration was determined in accordance with individual’s responsibility, competence and skills, experience and performance as well as market pay level. Staff benefits include medical and life insurance, provident funds and other competitive fringe benefits. The Company has adopted a share option scheme to provide incentive or rewards to staff.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the Year (2019: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 30 June 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	4	126,245	145,753
Cost of sales		<u>(50,342)</u>	<u>(67,113)</u>
Gross profit		75,903	78,640
Other income and gains	5	6,186	8,244
Selling, distribution and other cinema operating expenses		(229,942)	(109,583)
General and administrative expenses		(64,234)	(54,867)
Other expenses, net		(92,329)	(54,682)
Finance costs	7	<u>(49,786)</u>	<u>(2,037)</u>
LOSS BEFORE TAX	6	(354,202)	(134,285)
Income tax credit	8	<u>976</u>	<u>—</u>
LOSS FOR THE YEAR		<u>(353,226)</u>	<u>(134,285)</u>
Attributable to:			
Owners of the parent		(342,181)	(126,437)
Non-controlling interests		<u>(11,045)</u>	<u>(7,848)</u>
		<u>(353,226)</u>	<u>(134,285)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic and diluted	10	<u>HK\$(0.11)</u>	<u>HK\$(0.04)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(353,226)</u>	<u>(134,285)</u>
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
<i>Exchange differences:</i>		
Exchange differences on translation of foreign operations	(8,732)	(8,829)
Reclassification adjustments for foreign operations disposed of during the year	<u>–</u>	<u>305</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(8,732)</u>	<u>(8,524)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u><u>(361,958)</u></u>	<u><u>(142,809)</u></u>
Attributable to:		
Owners of the parent	(350,303)	(133,870)
Non-controlling interests	<u>(11,655)</u>	<u>(8,939)</u>
	<u><u>(361,958)</u></u>	<u><u>(142,809)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		524,524	262,699
Right-of-use assets		1,064,327	–
Prepayments, deposits and other receivables		36,338	56,002
Total non-current assets		1,625,189	318,701
CURRENT ASSETS			
Inventories		2,110	641
Trade receivables	11	2,532	4,761
Prepayments, deposits and other receivables		38,758	38,922
Financial assets at fair value through profit or loss		7,130	170,783
Cash and cash equivalents		40,625	166,465
Total current assets		91,155	381,572
CURRENT LIABILITIES			
Trade payables, other payables and accruals	12	48,939	40,776
Contract liabilities		15,218	11,128
Interest-bearing bank and other borrowings		2,000	–
Lease liabilities		50,457	–
Amounts due to related companies		3,709	5,651
Amount due to non-controlling interests		–	43,589
Total current liabilities		120,323	101,144
NET CURRENT ASSETS/(LIABILITIES)		(29,168)	280,428
TOTAL ASSETS LESS CURRENT LIABILITIES		1,596,021	599,129

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**30 June 2020*

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Provisions	44,816	–
Interest-bearing bank and other borrowings	146,313	–
Lease liabilities	1,103,756	–
Amount due to non-controlling interests	43,589	–
	<hr/>	<hr/>
Total non-current liabilities	1,338,474	–
	<hr/>	<hr/>
Net assets	257,547	599,129
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	32,133	32,133
Reserves	261,540	591,385
	<hr/>	<hr/>
	293,673	623,518
Non-controlling interests	(36,126)	(24,389)
	<hr/>	<hr/>
Total equity	257,547	599,129
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value. The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

The outbreak of novel coronavirus (“COVID-19”) since early 2020 has disrupted the business operations and developments of the Group. The Group has closely monitored the development of COVID-19 outbreak and the extent of the impact depends on the duration of the Pandemic and the implementation of relevant policies and protective measures by respective governments. The Group has paid close attention to any significant changes of situation and has evaluated their impact on the Group’s consolidated financial position, financial performance and cash flows, as well as financial resources available to the Group in the short to medium term.

The Group had a net loss attributable to owners of the parent of HK\$342,181,000 (2019: HK\$126,437,000) for the Year and net current liabilities of HK\$29,168,000 (2019: net current assets of HK\$280,428,000) and net assets of HK\$257,547,000 (2019: HK\$599,129,000) as at 30 June 2020. The Group’s net loss for the Year included certain non-cash expenses/charges in an aggregate amount of HK\$240,705,000. The Group had total cash and cash equivalents of HK\$40,625,000 as at 30 June 2020.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain growth and cash positive operations in the near future. Active measurements to save costs, to enhance the Group’s existing operations and to focus on improving the financial resources of the Group have been implemented/contemplated by the Group to control its operating expenses and cash flows in the current and coming years and to enable the Group to revitalise itself to take advantage of any growth opportunities in the near future (the “**Improvement Measures**”).

In addition, the Group has obtained a long-term loan facility from a related party in amount of HK\$1,200,000,000 (the “**Other Loan Facility**”), of which an aggregate loan principal amount of HK\$144,000,000 was utilised as at 30 June 2020. The Group has also obtained a revolving loan facility from a bank in amount of HK\$20,000,000 (the “**Bank Loan Facility**”), of which an aggregate loan principal amount of HK\$2,000,000 was utilised as at 30 June 2020.

The directors of the Company have evaluated relevant conditions and events that are known or could be reasonably forecasted/estimated. Based on such evaluation, the directors of the Company are of the opinion that, in light of the measures/arrangements contemplated/implemented to date, including, inter alia, the Improvement Measures, and the availability of the Other Loan Facility and the Bank Loan Facility, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future and, accordingly, it is appropriate for the Group to continue to adopt the going concern basis in preparing the consolidated financial statements for the Year.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28 and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to or do not have significant impact on the preparation of the Group's consolidated financial statements, the nature and the impact of the new HKFRSs, are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 July 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulated losses (or other component of equity, as appropriate) as at 1 July 2019, and the comparative information for 2019 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various leased office properties and cinema properties used in its operations. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term, commencing from 1 July 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities as at 1 July 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 July 2019. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 as at 1 July 2019:

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities as at 1 July 2019
- Relying on the Group’s assessment of whether leases were onerous by applying HKAS 37 immediately before 1 July 2019 as an alternative to performing an impairment review
- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 July 2019

The impact arising from the adoption of HKFRS 16 as at 1 July 2019 was as follows:

	Increase/ (decrease) HK\$'000
Assets	
Increase in right-of-use assets	636,626
Decrease in prepayments, deposits and other receivables	<u>(8,055)</u>
Increase in total assets	<u><u>628,571</u></u>
Liabilities	
Decrease in trade payables, other payables and accruals	(17,417)
Decrease in amounts due to related companies	(3,962)
Increase in deferred tax liabilities	1,003
Increase in lease liabilities	<u>628,571</u>
Increase in total liabilities	<u><u>608,195</u></u>
Decrease in accumulated losses	(20,458)
Change in non-controlling interests	<u>82</u>
	<u><u>(20,376)</u></u>

The lease liabilities as at 1 July 2019 reconciled to the operating lease commitments as at 30 June 2019 are as follows:

	HK\$'000
Operating lease commitments at 30 June 2019	1,876,307
Less: Commitments relating to leases not yet commenced at 1 July 2019	(1,151,551)
Add: Lease payments for optional extension periods not recognised at 30 June 2019	<u>147,760</u>
	872,516
Weighted average incremental borrowing rate at 1 July 2019	<u>5%</u>
Lease liabilities at 1 July 2019	<u><u>628,571</u></u>

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. Based on the Group’s assessment, the interpretation did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- (a) Cinema operation
- (b) Investments in films and cultural events (including investments in film and event projects; and production, distribution, licensing of animated television episodes and theatrical films which was disposed of during the year ended 30 June 2019)

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit/loss before tax except that bank interest income, unallocated gains, non-lease-related finance costs as well as unallocated corporate and other expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, investments in listed equity securities included in financial assets at fair value through profit or loss (“**FVPL**”) and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

3. OPERATING SEGMENT INFORMATION (continued)
Year ended 30 June 2020/At 30 June 2020

	Cinema operation <i>HK\$'000</i>	Investments in films and cultural events <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue (note 4)			
Sales to external customers	<u>126,245</u>	<u>–</u>	<u>126,245</u>
Segment results	(348,036)	302	(347,734)
<i>Reconciliation:</i>			
Bank interest income			246
Fair value loss on financial assets at FVPL			(694)
Unallocated corporate and other expenses			(3,689)
Finance costs (other than interest on lease liabilities)			<u>(2,331)</u>
Loss before tax			<u>(354,202)</u>
Segment assets	1,668,304	6,222	1,674,526
<i>Reconciliation:</i>			
Corporate and other unallocated assets			<u>41,818</u>
Total assets			<u>1,716,344</u>
Segment liabilities	1,309,537	50	1,309,587
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			<u>149,210</u>
Total liabilities			<u>1,458,797</u>
Other segment information			
Depreciation of property, plant and equipment	57,311	–	57,311
Depreciation of right-of-use assets	90,195	–	90,195
Impairment of property, plant and equipment	38,040	–	38,040
Impairment of right-of-use assets	53,987	–	53,987
Loss on disposal/write-off of property, plant and equipment	1,172	–	1,172
Fair value gain on financial assets at FVPL	–	392	392
Capital expenditure*	<u>1,015,905</u>	<u>–</u>	<u>1,015,905</u>

* Capital expenditure consists of additions to property, plant and equipment and right-of-use assets.

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 30 June 2019/At 30 June 2019

	Cinema operation <i>HK\$'000</i>	Investments in films and cultural events <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue (note 4)			
Sales to external customers	142,971	2,782	145,753
Segment results	(67,947)	(49,566)	(117,513)
<i>Reconciliation:</i>			
Bank interest income			2,710
Gain on derecognition of a contingent consideration receivable			654
Fair value loss on financial assets at FVPL			(14,936)
Gain on disposal of subsidiaries			3,476
Unallocated corporate and other expenses			(6,639)
Finance costs			(2,037)
Loss before tax			(134,285)
Segment assets	361,711	166,000	527,711
<i>Reconciliation:</i>			
Corporate and other unallocated assets			172,562
Total assets			700,273
Segment liabilities	99,472	48	99,520
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			1,624
Total liabilities			101,144
Other segment information			
Amortisation of film and television programme rights	–	8,111	8,111
Amortisation of intangible assets	–	1,942	1,942
Depreciation of property, plant and equipment	29,438	81	29,519
Impairment of goodwill	–	28,273	28,273
Impairment of trade receivables	381	–	381
Write-off of film and television programme production in progress	–	3,110	3,110
Fair value loss on financial assets at FVPL	–	7,982	7,982
Capital expenditure*	63,324	34	63,358

* Capital expenditure consists of additions to property, plant and equipment.

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	65,891	114,692
Hong Kong	56,361	31,061
Other regions in Asia Pacific	3,993	–
	<u>126,245</u>	<u>145,753</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	593,651	189,322
Hong Kong	745,440	91,133
Macau	267,512	–
Other regions in Asia Pacific	18,586	38,246
	<u>1,625,189</u>	<u>318,701</u>

The non-current asset information above is based on the locations of the assets.

Information about major customers

The Group did not have revenues from any single customer accounting for 10% or more of the total revenue of the Group for the Year (2019: Nil).

4. REVENUE

An analysis of the Group's revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers		
Income from cinema operation	126,245	142,971
Income from film and television programme production and others	—	2,782
	<u>126,245</u>	<u>145,753</u>

Revenue from contracts with customers
(a) Disaggregated revenue information
Year ended 30 June 2020

Segments	Cinema operation <i>HK\$'000</i>	Investments in films and cultural events <i>HK\$'000</i>	Total <i>HK\$'000</i>
Type of goods or services			
Box office takings	100,851	—	100,851
Sale of concession goods	11,859	—	11,859
Screen advertising services	7,348	—	7,348
Others	6,187	—	6,187
	<u>126,245</u>	<u>—</u>	<u>126,245</u>
Geographical markets			
Mainland China	65,891	—	65,891
Hong Kong	56,361	—	56,361
Other regions in Asia Pacific	3,993	—	3,993
	<u>126,245</u>	<u>—</u>	<u>126,245</u>

4. REVENUE (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

Year ended 30 June 2019

Segments	Cinema operation HK\$'000	Investments in films and cultural events HK\$'000	Total HK\$'000
Type of goods or services			
Box office takings	114,297	–	114,297
Sale of concession goods	12,376	–	12,376
Screen advertising services	11,645	–	11,645
Licensing of distribution rights	–	2,782	2,782
Others	4,653	–	4,653
	<u>142,971</u>	<u>2,782</u>	<u>145,753</u>
Total revenue from contracts with customers	<u>142,971</u>	<u>2,782</u>	<u>145,753</u>
Geographical markets			
Mainland China	114,692	–	114,692
Hong Kong	28,279	2,782	31,061
	<u>142,971</u>	<u>2,782</u>	<u>145,753</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Short-term advances received from customers:		
Cinema operation	<u>9,768</u>	<u>10,934</u>

4. REVENUE (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Box office takings

The performance obligation is satisfied when the film is exhibited to the customer and payment in advance is normally required.

Sale of concession goods

The performance obligation is satisfied at a point in time when the customer takes possession of the goods and payment is received.

Screen advertising services

The performance obligation is generally satisfied over time when the customer simultaneously receives and consumes the benefits as the Group makes the cinema available for screening of advertisements over the period of the agreement, while certain payments in advance are normally required, with the balance payable at the end of the reporting period of HK\$1,984,000 (2019: HK\$1,047,000) included in contract liabilities.

Licensing of distribution rights

The performance obligation is generally satisfied when the relevant master materials of films and television programmes are delivered to the customer.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest income from:		
– Bank interest income	246	2,710
– Deposits paid	1,115	–
Government subsidies	4,811	735
Gain on disposal of subsidiaries	–	3,476
Gain on derecognition of a contingent consideration receivable	–	654
Others	14	669
	<u>6,186</u>	<u>8,244</u>

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold [#]	3,559	3,402
Depreciation of property, plant and equipment ^{**}	57,311	29,519
Depreciation of right-of-use assets ^{**}	90,195	–
Amortisation of film and television programme rights [#]	–	8,111
Amortisation of intangible assets [^]	–	1,942
Fair value loss on financial assets at FVPL, net [*]	302	22,918
Loss on disposal/write-off of property, plant and equipment	1,172	–
Impairment of trade receivables [*]	–	381
Impairment of goodwill [*]	–	28,273
Impairment of property, plant and equipment ^{**^}	38,040	–
Impairment of right-of-use assets ^{**^}	53,987	–
Write-off of film and television programme production in progress [*]	–	3,110
	<u> </u>	<u> </u>

[#] Included in “Cost of sales” in the consolidated statement of profit or loss.

^{*} Included in “Other expenses, net” in the consolidated statement of profit or loss.

[^] Included in “General and administrative expenses” in the consolidated statement of profit or loss.

^{**} Depreciation of property, plant and equipment of HK\$56,975,000 (2019: HK\$29,190,000) and depreciation of right-of-use assets of HK\$86,625,000 (2019: Nil) are included in “Selling, distribution and other cinema operating expenses” in the consolidated statement of profit or loss.

^{^^} The impairment was determined after certain forecasting process that underpinned the year end impairment review, considering the estimated effect of the Pandemic and other changes in external environment during the Year and expected market development.

7. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank and other borrowings	2,331	2,037
Interest on lease liabilities	47,455	–
	<u> </u>	<u> </u>
	<u>49,786</u>	<u>2,037</u>

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Year (2019: Nil).

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group is not subject to any income tax in Bermuda and the British Virgin Islands.

No provision for The People's Republic of China Enterprise Income Tax, Macau Complementary Tax and Malaysia Corporate Income Tax have been made in the consolidated financial statements as the Group had no assessable profits arising in the Mainland China, Macau and Malaysia for the current and prior years.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	–	–
Deferred	<u>(976)</u>	<u>–</u>
Income tax credit	<u><u>(976)</u></u>	<u><u>–</u></u>

9. DIVIDEND

The board of directors of the Company does not recommend the payment of any dividend in respect of the Year (2019: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

Basic

The calculation of the basic loss per share amount is based on the loss for the Year attributable to owners of the parent of HK\$342,181,000 (2019: HK\$126,437,000), and the weighted average number of the ordinary shares of the Company of approximately 3,213,341,000 (2019: 3,213,341,000) in issue during the Year.

Diluted

No adjustment has been made to the basic loss per share amounts presented for the years ended 30 June 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during those periods.

11. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	2,913	5,142
Impairment	(381)	(381)
	<u>2,532</u>	<u>4,761</u>

For the Group's box office takings and sale of concession goods and other products, payments on demand or in advance in cash or by major credit/debit cards or other electronic/mobile payment methods are normally required, with the settlements from the corresponding banks or other financial institutions normally within 2 to 30 days. The Group's trading terms with its other customers are mainly on credit. The credit period is generally 1 month from the date of billing. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	2,502	4,734
1 to 3 months	–	–
Over 3 months	30	27
	<u>2,532</u>	<u>4,761</u>

Included in the Group's trade receivables are amounts due from related companies/parties of HK\$563,000 as at 30 June 2020 (2019: Nil) which are unsecured, non-interest bearing and repayable on demand.

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	4,847	8,678
Accruals	8,257	19,061
Other payables	<u>35,835</u>	<u>13,037</u>
	<u><u>48,939</u></u>	<u><u>40,776</u></u>

An ageing analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	3,768	8,678
Over 3 months	<u>1,079</u>	<u>–</u>
	<u><u>4,847</u></u>	<u><u>8,678</u></u>

The trade payables are non-interest-bearing and are normally settled within 2 months.

13. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified/re-grouped to confirm with the current year's presentation.

As further explained in note 2 to the consolidated financial statements, the Group adopted HKFRS 16 on 1 July 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the consolidated financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

SCOPE OF WORK OF MESSRS. ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by Messrs. Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Ernst & Young on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

The consolidated financial statements for the Year had been reviewed by the Audit Committee of the Company in conjunction with the Group's auditors, Messrs. Ernst & Young. Based on this review and discussions with the management, the Audit Committee was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's consolidated financial position as at 30 June 2020 and the annual results for the Year.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company had complied throughout the Year with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

Model Code for Securities Transactions

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry to the Directors, all of them confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the Year.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines in line with the Model Code. No incident of non-compliance by relevant employees was noted throughout the Year.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.empculture.com>). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Emperor Culture Group Limited
Fan Man Seung, Vanessa
Chairperson

Hong Kong, 29 September 2020

As at the date hereof, the Board comprises:

Executive Directors:

Ms. Fan Man Seung, Vanessa
Mr. Wong Chi Fai
Mr. Yeung Ching Loong, Alexander
Ms. Shirley Percy Hughes

Independent Non-executive Directors:

Ms. Chan Sim Ling, Irene
Mr. Ho Tat Kuen
Ms. Tam Sau Ying