

**Emperor Culture Group Limited** 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.

## **RESULTS**

During the year ended 30 June 2020 (the “Year”), the total revenue of Emperor Culture Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) 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).

## **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 as follows:

		<i>No. of houses</i>	<i>No. of seats</i>
<b>Mainland China</b>			
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
<b>Hong Kong</b>			
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
<b>Malaysia</b>			
11.	R&F Mall Johor Bahru	8	743
	<b>Total</b>	<b>95</b>	<b>12,437</b>

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 annual report, 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.