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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2018

The Board of Directors (the “Board” or “Directors”) of Emperor Culture Group Limited (the “Company”) announces the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30 June 2018 (the “Year”) together with the comparative figures for the corresponding year in 2017 as set out below.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended 30 June 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Revenue	3	91,202	44,925
Cost of sales		(42,972)	(37,460)
Gross profit		48,230	7,465
Other revenue		10,552	16,726
Selling and distribution expenses		(19,245)	(7,399)
Administrative expenses		(98,745)	(41,272)
Other operating expenses	5	(67,448)	(72,477)
Change in fair value of financial assets at fair value through profit or loss		(31,691)	(7,115)
Loss from operations	5	(158,347)	(104,072)
Loss on disposal of subsidiaries	11	(8)	–
Gain on disposal of associates		–	34,825
Finance costs		–	(6)
Loss before taxation		(158,355)	(69,253)
Taxation credit	6	242	175
Loss for the year		(158,113)	(69,078)
Other comprehensive income for the year			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		3,216	100
Other comprehensive income for the year, net of tax		3,216	100
Total comprehensive loss for the year		(154,897)	(68,978)
Loss for the year attributable to:			
Owners of the Company		(153,797)	(62,327)
Non-controlling interests		(4,316)	(6,751)
		(158,113)	(69,078)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended 30 June 2018

	<i>Note</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(151,473)	(61,825)
Non-controlling interests		(3,424)	(7,153)
		<u>(154,897)</u>	<u>(68,978)</u>
Loss per share attributable to the owners of the Company:			
– Basic and diluted	7	<u>HK\$(0.05)</u>	<u>HK\$(0.03)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		236,902	72,241
Goodwill		68,260	95,614
Intangible assets		27,661	25,489
Contingent consideration receivable		–	485
		<u>332,823</u>	<u>193,829</u>
Current assets			
Inventories		894	131
Film and TV programme rights		14,031	11,986
Film and TV programme production in progress		150,797	215,463
Investments in film production		35,302	1,683
Trade receivables	9	12,227	16,642
Other receivables, deposits and prepayments		64,432	53,553
Contingent consideration receivable		7,210	7,998
Financial assets at fair value through profit or loss		20,750	52,441
Cash and bank balances		264,142	452,616
		<u>569,785</u>	<u>812,513</u>
Asset classified as held for sale		–	47,600
		<u>569,785</u>	<u>860,113</u>
Current liabilities			
Trade and other payables	10	101,045	111,887
Amounts due to related companies		15,553	16,049
Amount due to non-controlling interests		44,870	44,870
		<u>161,468</u>	<u>172,806</u>
Net current assets		<u>408,317</u>	<u>687,307</u>
Total assets less current liabilities		<u>741,140</u>	<u>881,136</u>
Non-current liability			
Deferred tax liability		–	242
Net assets		<u>741,140</u>	<u>880,894</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Capital and reserves attributable to the owners of the Company		
Share capital	32,133	32,133
Reserves	720,573	872,046
	752,706	904,179
Non-controlling interests	(11,566)	(23,285)
Total equity	741,140	880,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under historical cost convention except for certain financial assets which are carried at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Save as described in note 2, the accounting policies adopted for preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 30 June 2017.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The Group has applied for the first time in the current year the following amendments to HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA.

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRSs 12 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

HKAS 7 (Amendments) Disclosure Initiative

The amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

HKAS 7 (Amendments) Disclosure Initiative (Continued)

A reconciliation between the opening and closing balances of these items will be provided in a note to the consolidated financial statements of the annual report of the Company. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the note, the application of these amendments has had no impact on the Group's consolidated financial statements.

In addition, the HKICPA has issued a number of new and amendments to HKFRSs which are not effective for the Year and have not been early adopted by the Group.

3. REVENUE

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cinema operation	65,578	31,829
Film and TV programme production and investment and others	24,633	26,251
Event investment and others	991	902
Investment in securities	–	(14,057)
	91,202	44,925

4. SEGMENT INFORMATION

For the purposes of resource allocation and assessment of segment performance, information reported to the Executive Directors of the Company, being the chief operating decision makers (the "CODM"), focus on types of goods or services delivered or provided.

In the manner consistent with the way in which information is reported internally to the CODM for the purposes of resource allocation and performance assessment, the business activities of the Group are organised into the following operating segments:

- Cinema operation
- Film and TV programme production and investment and others (including production, distribution and licensing of animated TV episodes and theatrical films)
- Event investment and others (including artiste and model management and music production)
- Investment in securities

Information regarding the Group's reportable segments is presented below:

4. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results

	Cinema operation HK\$'000	Film and TV programme production and investment and others HK\$'000	Event investment and others HK\$'000	Investment in securities HK\$'000	Consolidated HK\$'000
2018					
Segment revenue	<u>65,578</u>	<u>24,633</u>	<u>991</u>	<u>-</u>	<u>91,202</u>
Segment results	<u>(65,838)</u>	<u>(57,066)</u>	<u>991</u>	<u>-</u>	<u>(121,913)</u>
Interest income					1,890
Loss on fair value change in respect of contingent consideration receivable					(1,273)
Unallocated corporate expenses					(5,360)
Change in fair value of financial assets at fair value through profit or loss					<u>(31,691)</u>
Loss from operations					<u>(158,347)</u>
Loss on disposal of subsidiaries					<u>(8)</u>
Loss before taxation					<u><u>(158,355)</u></u>
2017					
Segment revenue	<u>31,829</u>	<u>26,251</u>	<u>902</u>	<u>(14,057)</u>	<u>44,925</u>
Segment results	<u>(18,944)</u>	<u>(65,103)</u>	<u>902</u>	<u>(9,410)</u>	<u>(92,555)</u>
Interest income					862
Gain on fair value change in respect of contingent consideration receivable					338
Unallocated corporate expenses					(5,602)
Change in fair value of financial assets at fair value through profit or loss					<u>(7,115)</u>
Loss from operations					<u>(104,072)</u>
Gain on disposal of associates					34,825
Finance costs					<u>(6)</u>
Loss before taxation					<u><u>(69,253)</u></u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment revenue in the current year (2017: Nil). During the year ended 30 June 2017, segment revenue in respect of investment in securities represented the difference between the total sale proceeds of HK\$83,667,000 and the total investment costs of those securities disposed of during that year.

Segment results represent the profit earned/(loss suffered) by each segment without allocation of interest income, central administration costs which mainly include Directors' emoluments and corporate legal and professional fees, fair value changes in respect of contingent consideration receivable and financial assets at fair value through profit or loss, and the relevant loss/gain on disposal of subsidiaries and associates. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

4. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

	Cinema operation HK\$'000	Film and TV programme production and investment and others HK\$'000	Event investment and others HK\$'000	Investment in securities HK\$'000	Total HK\$'000
2018					
Segment assets	<u>295,459</u>	<u>321,955</u>	<u>–</u>	<u>20,750</u>	<u>638,164</u>
Unallocated assets					<u>264,444</u>
Consolidated assets					<u><u>902,608</u></u>
Segment liabilities	<u>139,906</u>	<u>19,814</u>	<u>–</u>	<u>–</u>	<u>159,720</u>
Unallocated liabilities					<u>1,748</u>
Consolidated liabilities					<u><u>161,468</u></u>
2017					
Segment assets	<u>91,616</u>	<u>454,127</u>	<u>2,880</u>	<u>52,441</u>	<u>601,064</u>
Unallocated assets					<u>452,878</u>
Consolidated assets					<u><u>1,053,942</u></u>
Segment liabilities	<u>71,490</u>	<u>98,555</u>	<u>–</u>	<u>–</u>	<u>170,045</u>
Unallocated liabilities					<u>3,003</u>
Consolidated liabilities					<u><u>173,048</u></u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated head office and corporate assets that are not attributable to segments; and
- all liabilities are allocated to reportable segments other than unallocated corporate financial liabilities that are not attributable to segments.

4. SEGMENT INFORMATION (Continued)

(c) Other segment information

	Cinema operation HK\$'000	Film and TV programme production and investment and others HK\$'000	Event investment and others HK\$'000	Investment in securities HK\$'000	Consolidated HK\$'000
2018					
Additions to property, plant and equipment	178,885	63	-	-	178,948
Amortisation of film and TV programme rights	-	7,150	-	-	7,150
Amortisation of intangible assets	-	2,015	-	-	2,015
Cost of investments in film production	-	6,430	-	-	6,430
Depreciation of property, plant and equipment	16,314	73	-	-	16,387
Loss on disposal of property, plant and equipment	-	35	-	-	35
Impairment loss recognised in respect of:					
– goodwill	-	27,354	-	-	27,354
– investments in film production	-	37,046	-	-	37,046
– trade receivables	-	1,775	-	-	1,775
Written off of film and TV programme production in progress	-	120	-	-	120
2017					
Additions to property, plant and equipment	22,122	532	-	-	22,654
Amortisation of film and TV programme rights	-	4,556	-	-	4,556
Amortisation of intangible assets	-	1,847	-	-	1,847
Cost of investments in film production	-	18,586	-	-	18,586
Depreciation of property, plant and equipment	8,750	225	-	-	8,975
Loss on disposal of property, plant and equipment	1	32	-	-	33
Impairment loss recognised in respect of:					
– goodwill	-	2,636	-	-	2,636
– film and TV programme rights	-	2,485	-	-	2,485
– investments in film production	-	62,845	-	-	62,845
– other receivables	-	3,000	-	-	3,000
Reversal of impairment loss recognised in respect of trade receivables	-	(69)	-	-	(69)

4. SEGMENT INFORMATION (Continued)

(d) Geographical information

The Group's revenue from external customers by location of sales and information about its non-current assets by location of assets are detailed as below:

	Revenue from		Non-current assets*	
	external customers			
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	57,509	40,848	235,739	72,204
Hong Kong	33,693	2,890	95,921	121,140
Macau	–	–	1,163	–
Hungary	–	1,177	–	–
Others	–	10	–	–
	91,202	44,925	332,823	193,344

* The above non-current assets have excluded the financial instruments such as contingent consideration receivable.

(e) Information about major customers

Revenue from one (2017: one) major customer contributing over 10% of the Group's revenue for the Year was HK\$16,745,000 (2017: HK\$20,697,000), which was derived from the segment of film and TV programme production and investment and others.

5. LOSS FROM OPERATIONS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss from operations has been arrived at after charging/ (crediting):		
Amortisation of film and TV programme rights (included in cost of sales)	7,150	4,556
Amortisation of intangible assets (included in administrative expenses)	2,015	1,847
Cost of investments in film production (included in cost of sales)	6,430	18,586
Depreciation of property, plant and equipment	16,387	8,975
Loss on disposal of property, plant and equipment	35	33
Loss on fair value change in respect of contingent consideration receivable*	1,273	–
Impairment loss recognised in respect of:		
– goodwill*	27,354	2,636
– film and TV programme rights*	–	2,485
– investments in film production*	37,046	62,845
– trade and other receivables*	1,775	3,000
Written off of film and TV programme production in progress	120	–
Bank interest income	(1,890)	(862)
Listed corporate bond interest income	–	(1,328)
Gain on fair value change in respect of contingent consideration receivable	–	(338)
Reversal of impairment loss recognised in respect of trade receivables	–	(69)
	<u> </u>	<u> </u>

* *The aggregation of these items are included in “Other operating expenses” in the consolidated statement of profit or loss and other comprehensive income.*

6. TAXATION CREDIT

Taxation credit comprises:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong Profits Tax:		
Current tax	–	–
Over-provision in prior year	–	12
	<hr/>	<hr/>
	–	12
Deferred taxation	242	163
	<hr/>	<hr/>
	242	175
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit derived from Hong Kong for both years.

Under the Enterprise Income Tax Law of the PRC (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Macau’s subsidiary is subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profits for the Year (2017: N/A). No provision for the PRC Enterprise Income Tax and Macau Complementary Tax have been made in the consolidated financial statements as the Group has no assessable profits arising in the PRC and Macau for both years.

7. LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	(153,797)	(62,327)
	<hr/> <hr/>	<hr/> <hr/>
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	3,213,341	2,487,313
	<hr/> <hr/>	<hr/> <hr/>

For the years ended 30 June 2018 and 2017, the diluted loss per share was the same as the basic loss per share as there was no dilutive potential ordinary share for both years.

8. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the Year (2017: Nil).

9. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 180 days (2017: 30 to 180 days) to its customers. The ageing analysis of the trade receivables of the Group based on the invoice date at the end of the reporting period is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 90 days	12,302	9,992
91 to 180 days	–	–
Over 180 days	1,700	12,822
	<u>14,002</u>	<u>22,814</u>
Less: Impairment loss recognised in respect of trade receivables	(1,775)	(6,172)
	<u>12,227</u>	<u>16,642</u>

10. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	5,684	11,614
Accruals	21,346	12,613
Deposits received for disposal of film rights	–	47,600
Receipt in advance	10,934	34,223
Other payables (<i>note</i>)	63,081	5,837
	<u>101,045</u>	<u>111,887</u>

Note:

Other payables mainly comprise of (a) HK\$50,652,000 (2017: HK\$3,863,000) for consideration payable to independent third parties for enhancement and expansion of cinemas and (b) HK\$3,528,000 (2017: Nil) payable to a film investor in respect of the film financing.

The following is an ageing analysis of trade payables of the Group based on the invoice date at the end of the reporting period:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 90 days	5,684	5,036
Over 90 days	–	6,578
	<u>5,684</u>	<u>11,614</u>

11. DISPOSAL OF SUBSIDIARIES

On 2 May 2018, the Group disposed of its 100% equity interest in Corporate Fame Limited together with its subsidiaries (collectively referred to as “Corporate Fame Group”) to an independent third party at a cash consideration of HK\$8,100,000 which resulted in a loss on disposal of HK\$8,000. Corporate Fame Group was principally engaged in film and TV programme production and distribution and provision of event management services in previous years.

No disposal-related costs has been charged to administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the Year.

Summary of the effect on disposal of Corporate Fame Group is as follows:

	2018 HK\$'000
Property, plant and equipment	–
Film and TV programme rights	–
Trade receivables	–
Other receivables, deposits and prepayments	35
Cash and bank balances	9,831
Trade and other payables	<u>(16,901)</u>
Net liabilities disposed of	<u>(7,035)</u>
Consideration received	8,100
Net liabilities disposed of	7,035
Non-controlling interests	<u>(15,143)</u>
Loss on disposal	<u>(8)</u>
Net cash outflow arising from the disposal:	
Cash consideration received	8,100
Cash and bank balances disposed of	<u>(9,831)</u>
	<u>(1,731)</u>

12. EVENT AFTER THE END OF THE REPORTING PERIOD

On 24 May 2018, the Company and Emperor International Holdings Limited (“Emperor International”), a connected person of the Company, entered into a master leasing agreement (“Master Leasing Agreement”) which sets out a framework of the terms governing the tenancy transactions between the Group and the relevant members of Emperor International, details of which were set out in the announcement dated 24 May 2018 and the circular dated 17 July 2018 of the Company. The Master Leasing Agreement and the relevant annual cap were approved by the respective independent shareholders of the Company and Emperor International in August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group principally engages in entertainment, media and cultural development business, particularly in Greater China, which include (i) cinema development and operation; (ii) investment and production of films, TV programmes and other media related projects; (iii) investment in a variety of cultural events including music concerts, live shows and theatrical performance; and (iv) investment in securities.

MARKET REVIEW

Over the past decade, film market in China has been growing rapidly. According to the market research conducted by Entgroup* (北京藝恩世紀數據科技股份有限公司), a leading research center of China entertainment industry, China was the world's second largest box-office market in 2017 with revenue of RMB52.4 billion, at a phenomenal growth rate of 15% year-on-year. In the first half of 2018, the box office reached RMB30.0 billion, soared by 17% as compared with the corresponding period last year.

The number of cinemas and screens in China has been increasing rapidly in recent years. As of 31 December 2017, there were about 9,300 cinemas and 52,700 screens in China, growing by folds within five years and surpassing those of the United States. In 2017, a massive number of 11,800 screens was added in China, at a pace of 32 new screens a day in this year. This underlines the growing popularity of cinemas and lays a solid foundation for the sustained growth of China's film industry.

FINANCIAL REVIEW

Overall Review

During the Year, revenue of the Group increased by 103.0% to HK\$91.2 million (2017: HK\$44.9 million), driven by the growth of film exhibition income from an expanded cinema network.

Loss for the Year attributable to the owners of the Company was HK\$153.8 million (2017: HK\$62.3 million). Such increase is mainly due to (i) the increase in fair value loss derived from the financial assets under the segment of investment in securities; (ii) the increase in impairment loss on goodwill; and (iii) a non-recurring gain on disposal of associates which was recorded in the previous year. Basic loss per share was HK\$0.05 (2017: HK\$0.03).

Use of Proceeds from Equity Fund Raising

During the Year, the Group utilised part of the net proceeds of HK\$161.8 million raised from the issue of 1,000,000,000 ordinary shares of the Company subscribed by Giant Lead Profits Limited (now known as "Emperor Culture Group Holdings Limited") at a subscription price of HK\$0.19 per share on 23 March 2017 (the "Subscription") for expansion of cinema operation in mainland China and investment in a film project as intended. As at 30 June 2018, the remaining proceeds of HK\$20.6 million was retained at banks.

* *English name is for identification purpose only*

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources

The Group continued to fund its operations and capital expenditure by cash generated internally from its operations as well as the net proceeds from the Subscription. As at 30 June 2018, the Group's cash and bank balances amounted to HK\$264.1 million (2017: HK\$452.6 million) which are mainly denominated in Hong Kong dollars and Renminbi.

Total borrowings of the Group as at 30 June 2018 was HK\$60.4 million (2017: HK\$60.9 million) comprising the amounts due to non-controlling interests and related companies of HK\$44.9 million and HK\$15.5 million (2017: HK\$44.9 million and HK\$16.0 million) respectively, which are denominated in Hong Kong dollars and Renminbi, unsecured, interest-free and repayable on demand. The gearing ratio (expressed as a percentage of total borrowings over net asset value) was 8.0% (2017: 6.7%).

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 and Renminbi. The carrying amount of the Group's Renminbi denominated monetary net assets was only less than 10.0% of its net assets as at 30 June 2018. Hence, the Group's exposure to fluctuations in exchange rates is insignificant.

Profit Guarantee

Pursuant to the terms of the sale and purchase agreement (the "S&P Agreement") dated 4 May 2016 entered into by a wholly-owned subsidiary of the Company with Jade Sparkle Holdings Limited and Mr. Wong Chun Loong (now known as "Mr. Huang Tony Jademan Xian Zhen") (collectively referred to as the "Vendors"), both being independent third parties, in respect of the acquisition of approximately 78.64% equity interest in Jade Dynasty Multi-Media Limited and its subsidiaries (collectively referred to as "JDMM Group"), the Vendors have given a guarantee (the "Profit Guarantee") to the Group that the audited consolidated net profit after tax of JDMM Group for each of the financial years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 (each of the "Guarantee Period") would be no less than HK\$10.0 million (the "Guaranteed Sum") for each of the Guaranteed Period.

In case the Profit Guarantee is not fulfilled in each of the Guaranteed Period, the Vendors shall pay 78.64% of the difference between the Guaranteed Sum and the audited consolidated profit after tax of JDMM Group (the "Shortfall") to the Group, and for avoidance of doubt, if JDMM Group sustained a loss for such financial year, 78.64% of the Guaranteed Sum shall be payable by the Vendors to the Group.

For the year ended 31 December 2017, JDMM Group recorded a loss after tax and hence, the Vendors were obliged to pay the Shortfall of HK\$7.9 million, being 78.64% of the Guaranteed Sum to the Group. The Group had recorded the Shortfall as compensation income and compensation income receivable in its audited consolidated financial statements for the Year, and also demanded payment from the Vendors of the Shortfall pursuant to the terms of the S&P Agreement. The Shortfall was subsequently settled by the Vendors on 20 September 2018.

FINANCIAL REVIEW (Continued)

Disposals

- (a) On 3 July 2017, the Group completed the disposals of certain film rights at total cash consideration of HK\$47.6 million. No gain or loss on the disposals was recorded for the Year as the carrying amounts of these film rights had been adjusted to their net realisable values as at 30 June 2017. Details of the disposals were set out in the Company's announcements dated 30 November 2016 and 15 June 2017.
- (b) On 2 May 2018, the Company disposed of its entire interest in Corporate Fame Limited ("Corporate Fame") at a cash consideration of HK\$8.1 million, resulting in a loss on disposal of HK\$8,000 for the Year. Corporate Fame and its subsidiaries principally carried out the businesses of film and TV programme production and distribution, and investment in securities in the previous years.

BUSINESS REVIEW

Film Exhibition

The Group devotes to expand its film exhibition network in prominent locations through its label "*Emperor Cinemas*". During the second half of the Year, four brand-new "*Emperor Cinemas*", one immediately after another, were opened and commenced business. They are located in either large-scale commercial and entertainment complex or upscale residential areas including Shin Kong Place in Chongqing, Emperor Group Centre in Beijing, Donghai Garden in Shenzhen as well as New Town Mansion in Tuen Mun, Hong Kong. "*Emperor Cinemas*" 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.

As at 30 June 2018, the Group ran five cinemas, offering a total of 54 houses with more than 6,200 seats. With rapid expansion of the film exhibition business, the revenue from this segment increased remarkably from HK\$31.8 million in the previous year to HK\$65.6 million for the Year, representing 106.0% growth. These new cinemas will not only bring in new income stream and stable return to the Group, but also lay a strong foundation for the Group's film exhibition business.

Film and TV Programme Investment and Production and Others

During the Year, this segment generated a revenue of HK\$24.6 million (2017: HK\$26.3 million) to the Group which was mainly contributed by distribution and licensing income arisen from animation business and release of certain co-invested films.

As of 30 June 2018, the carrying values of the Group's film and TV programme rights and production in progress were HK\$14.0 million and HK\$150.8 million (2017: HK\$12.0 million and HK\$215.5 million) respectively whilst the carrying amount of the investments in film production was HK\$35.3 million (2017: HK\$1.7 million). During the Year, the Group recognised an impairment loss of investment in film production of HK\$37.0 million (2017: HK\$62.8 million).

BUSINESS REVIEW (Continued)

Film and TV Programme Investment and Production and Others (Continued)

Due to the change in market condition in the mainland China which caused the deferral of certain animation projects to be released and its expected income is affected, the management took a prudent view to forecast the production, distribution and licensing of animated TV episodes and theatrical films business. As a result, an impairment loss on goodwill of HK\$27.4 million (2017: HK\$2.6 million) was recognised for the Year.

Event Investment and Others

The segment of event investment and others derived a revenue of HK\$1.0 million (2017: HK\$0.9 million) for the Year. Revenue of this segment was contributed by two co-invested concerts. The Group continues to take a prudent approach in the selection of events to be invested.

Investment in Securities

During the Year, the Group did not have any transaction in relation to investment in listed securities (2017: transaction loss of HK\$14.1 million). Based on the stock market price of the securities portfolio held by the Group, a decrease in the fair value of HK\$31.7 million (2017: HK\$7.1 million) was recognised for the Year. As at 30 June 2018, the carrying amount of the listed securities held by the Group was HK\$20.7 million (2017: HK\$52.4 million).

EVENT AFTER THE END OF THE REPORTING PERIOD

On 24 May 2018, the Company and Emperor International, a connected person of the Company, entered into the Master Leasing Agreement which sets out a framework of the terms governing the tenancy transactions between the Group and the relevant members of Emperor International, details of which were set out in the announcement dated 24 May 2018 and the circular dated 17 July 2018 of the Company. The Master Leasing Agreement and the relevant annual cap were approved by the respective independent shareholders of the Company and Emperor International in August 2018.

PROSPECTS

As Chinese consumers enjoy stable increase in their disposable income and improvement on quality of life, their spending on entertainment is expected to grow by leaps and bounds. With rapid growth in box office and number of screens, it is believed that China is poised to become the largest film market in the world in future. Taking into account the strong fundamentals of Chinese economy and film market, the Group is still positive about the entertainment industry and will continue to extend coverage of “*Emperor Cinemas*” in first and second tier cities of mainland China as well as Hong Kong and Macau. The Group strives to maximise the exposure of “*Emperor Cinemas*” through a series of branding and marketing initiatives. Riding on an ongoing synergy with movie stars and pop singers under Emperor Entertainment Group, “*Emperor Cinemas*” will continue to receive positive publicity in China.

PROSPECTS *(Continued)*

The year ahead will continue to be a year of foundation building and expansion for the Group. The Group has reached a cinema co-operation strategic agreement with China Gezhouba Group Real Estate Development Co. Ltd., one of the leading property developers in mainland China, to jointly develop premium cinemas in potential cities in China. The co-operation allows the Group to preferentially secure prominent locations for the expansion of its film exhibition network and brings unique cinematic experiences to the audiences in town.

The Group is optimistic about the long-term sustained growth of China's film and entertainment market. The Group also strives to respond to forthcoming market opportunities with flexibility and decisiveness, and to expand according to a strategy that is both disciplined and forward thinking.

EMPLOYEES AND REMUNERATION POLICY

Following the expansion of cinema operation in Hong Kong and mainland China, the number of employees of the Group increased significantly from 95 staff as at 30 June 2017 to 316 staff as at 30 June 2018. Total staff costs including the Directors' remuneration for the Year were HK\$28.4 million (2017: HK\$11.9 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. To provide incentive or rewards to staff, the Company has adopted a share option scheme, particulars of which will be set out in the section headed "Share Options" of the annual report of the Company.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2017: Nil).

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

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 as set out in the preliminary announcement have been agreed by the Group's auditor, HLB Hodgson Impey Cheng Limited (the "Auditor"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by the Auditor 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 the Auditor on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

The audited consolidated financial statements for the Year had been reviewed by the Audit Committee of the Company in conjunction with the external auditors, HLB Hodgson Impey Cheng Limited. Based on this review and discussions with the management, the Audit Committee was satisfied that the audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position as at 30 June 2018 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 (<http://www.hkexnews.hk>) and the Company (<http://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, 20 September 2018

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:

Mr. Ng Hoi Yue
Ms. Chan Sim Ling, Irene
Mr. Ho Tat Kuen