TRANSMIT ENTERTAINMENT

Transmit Entertainment Limited
傳遞娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK$395.3 million for the six months ended 31 December 2018, representing an increase of approximately HK$268.5 million or approximately 211.8% as compared to the corresponding period of 2017.
- The gross profit for the six months ended 31 December 2018 reached approximately HK$174.6 million, representing an increase of approximately 125.7% as compared to the corresponding period of 2017.
- The Group reported a profit attributable to owners of the Company of approximately HK$46.5 million for the six months ended 31 December 2018, as compared to a loss of approximately HK$28.9 million in the corresponding period of 2017.
- The Group's net assets and net current liabilities as at 31 December 2018 amounted to approximately HK$168.5 million and approximately HK$87.1 million respectively.
- The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2018.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Transmit Entertainment Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018

		Six months ended 31 December	
	Notes	**2018**	2017
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**395,277**	126,766
Cost of sales		**(220,713)**	(49,419)
Gross profit		**174,564**	77,347
Other gains and losses	*4*	**17,713**	—
Other income	*4*	**4,738**	3,392
Selling and distribution expenses		**(97,136)**	(92,298)
Administrative expenses		**(27,492)**	(22,180)
Net foreign exchange (loss) gain		**(4,302)**	1,742
Finance costs	*5*	**(14,052)**	(133)
Share of results of associates		**646**	290
Share of results of a joint venture		**(7)**	331
Profit (loss) before tax		**54,672**	(31,509)
Income tax (expense) credit	*6*	**(8,344)**	2,456
Profit (loss) for the period	*7*	**46,328**	(29,053)
Other comprehensive income (expense) for the period			
Items that may be reclassified subsequently to profit or loss			
Reclassification adjustments upon disposal of a subsidiary included in profit or loss		**165**	—
Share of exchange difference of a joint venture arising on translating foreign operation		**(10)**	47
Share of exchange difference of an associate arising on translating foreign operation		**285**	(57)
Exchange difference arising on translating foreign operation		**5,465**	(1,304)
		5,905	(1,314)
Total comprehensive income (expense) for the period		**52,233**	(30,367)

	Note	Six months ended 31 December **2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Profit (loss) for the period attributable to:			
— Owners of the Company		**46,509**	(28,898)
— Non-controlling interests		**(181)**	(155)
		46,328	(29,053)
Total comprehensive income (expense) for the period attributable to:			
— Owners of the Company		**52,414**	(30,212)
— Non-controlling interests		**(181)**	(155)
		52,233	(30,367)
Earnings (loss) per share	*8*		
Basic (HK cents)		**1.79**	(1.11)
Diluted (HK cents)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	31 December 2018 HK$'000 (unaudited)	30 June 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**94,000**	99,005
Goodwill		**439,228**	—
Intangible assets		**5,600**	5,600
Interests in associates		**26,845**	28,114
Interest in a joint venture		**188**	205
Rental deposits		**31,125**	31,125
Deferred tax assets		**1,156**	1,179
		598,142	165,228
Current assets			
Film and television rights		**4,647**	1,772
Film and television series production in progress		**154,860**	140,058
Available-for-sale investment		**—**	1,320
Financial assets at fair value through profit or loss		**1,320**	—
Investments in film/drama production		**—**	2,920
Inventories		**857**	690
Trade and other receivables	*9*	**153,409**	9,619
Rental deposits		**18,712**	18,712
Amounts due from related companies		**1,503**	143
Tax recoverable		**716**	716
Pledged bank deposits		**661**	10,661
Bank balances and cash		**112,709**	76,336
		449,394	262,947
Assets classified as held for sale		**—**	28,275
		449,394	291,222

	Notes	31 December 2018 HK$'000 (unaudited)	30 June 2018 HK$'000 (audited)
Current liabilities			
Trade and other payables	*10*	**139,993**	119,469
Receipts in advance	*10*	**—**	154,663
Contract liabilities	*10*	**139,420**	—
Tax payable		**8,305**	4
Bank borrowing	*11*	**—**	8,208
Loan from a related company		**43,320**	—
Amounts due to related companies		**50,051**	40,031
Amount due to a joint venture		**8,281**	8,296
Contingent consideration payable	*12*	**147,096**	—
		536,466	330,671
Liabilities associated with assets classified as held for sale		**—**	8,362
		536,466	339,033
Net current liabilities		**(87,072)**	(47,811)
Total assets less current liabilities		**511,070**	117,417
Non-current liabilities			
Loan from a related company		**153,900**	—
Contingent consideration payable	*12*	**187,393**	—
Deposits received	*10*	**1,243**	1,116
		342,536	1,116
		168,534	116,301
Capital and reserves			
Share capital		**6,489**	6,489
Reserves		**166,005**	113,591
Equity attributable to owners of the Company		**172,494**	120,080
Non-controlling interests		**(3,960)**	(3,779)
Total equity		**168,534**	116,301

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2018

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2017 (audited)	6,489	521,046	10	(2,223)	(214,108)	311,214	(3,478)	307,736
Loss for the period	—	—	—	—	(28,898)	(28,898)	(155)	(29,053)
Share of exchange difference of an associate arising on translating foreign operation	—	—	—	(57)	—	(57)	—	(57)
Share of exchange difference of a joint venture arising on translating foreign operation	—	—	—	47	—	47	—	47
Exchange difference arising on translating foreign operation	—	—	—	(1,304)	—	(1,304)	—	(1,304)
Total comprehensive expense for the period	—	—	—	(1,314)	(28,898)	(30,212)	(155)	(30,367)
At 31 December 2017 (unaudited)	6,489	521,046	10	(3,537)	(243,006)	281,002	(3,633)	277,369
At 1 July 2018 (audited)	**6,489**	**521,046**	**10**	**(3,607)**	**(403,858)**	**120,080**	**(3,779)**	**116,301**
Profit (loss) for the period	**—**	**—**	**—**	**—**	**46,509**	**46,509**	**(181)**	**46,328**
Reclassification adjustments upon disposal of a subsidiary included in profit or loss *(Note 13)*	**—**	**—**	**—**	**165**	**—**	**165**	**—**	**165**
Share of exchange difference of an associate arising on translating foreign operation	**—**	**—**	**—**	**285**	**—**	**285**	**—**	**285**
Share of exchange difference of a joint venture arising on translating foreign operation	**—**	**—**	**—**	**(10)**	**—**	**(10)**	**—**	**(10)**
Exchange difference arising on translating foreign operation	**—**	**—**	**—**	**5,465**	**—**	**5,465**	**—**	**5,465**
Total comprehensive income (expense) for the period	**—**	**—**	**—**	**5,905**	**46,509**	**52,414**	**(181)**	**52,233**
At 31 December 2018 (unaudited)	**6,489**	**521,046**	**10**	**2,298**	**(357,349)**	**172,494**	**(3,960)**	**168,534**

Note: Other reserve represents the difference between the aggregate nominal value of the respective share capital of the companies now comprising the subsidiaries of the Company over the nominal value of the shares of the Company issued pursuant to the group reorganisation completed on 5 October 2012 to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

As at 31 December 2018, the Group had net current liabilities of approximately HK$87,072,000 (30 June 2018: HK$47,811,000). The net current liabilities included contract liabilities of approximately HK$139,420,000 which will be recognised as revenue upon the delivery of the film negatives and television ("TV") series program to the customers and TV broadcast networks and shall not have any cash outflow to the Group, and amounts advanced from related companies of approximately HK$50,051,000 which are repayable on demand.

In the opinion of the directors of the Company (the "Directors"), after taking into account, among other things, the financial resources available to the Group including the future cash flows to be generated from the film and TV series production and distribution, the Directors are satisfied that the Group will have sufficient working capital to meet its financial obligations and commitments as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are satisfied that it is appropriate to prepare the condensed consolidated financial statements of the Group on a going concern basis. Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as set out in the condensed consolidated financial statements of the Group for the six months ended 31 December 2018.

3A. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Film and TV series production, distribution and licensing income	**268,542**	31,845
Film exhibition income	**119,711**	91,520
Post-production, advertising and marketing income	**7,024**	3,401
Total	**395,277**	126,766
Timing of revenue recognition		
At a point in time	**381,728**	119,087
Over time	**13,549**	7,679
Total	**395,277**	126,766

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

3B. SEGMENT INFORMATION

Information reported to the Executive Directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on the following four reportable and operating segments identified under HKFRS 8 "Operating Segments" for the Group's annual financial statements for the year ended 30 June 2018.

(i) Film and TV series production and distribution;

(ii) Film exhibition;

(iii) Post-production; and

(iv) Advertising, marketing and publication.

For the current interim period, the Executive Directors considered the insignificant financial results generated from both the post-production and advertising, marketing and publication and therefore re-grouped them into an "others" segment. As a result, there were three reporting and operating segments identified for the six months ended 31 December 2018 as follows and the comparative figures for the segment information for the six months ended 31 December 2017 were restated for consistent presentation:

(i) Film and TV series production and distribution;

(ii) Film exhibition; and

(iii) Others.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies used in the preparation of the Group's annual financial statements for the year ended 30 June 2018 except for the changes in accounting policy. Segment profit (loss) represent the loss incurred or profit earned by each segment without allocation of certain other gains and losses, certain other income, certain selling and distribution expenses, certain administrative expenses, certain finance costs and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

For the six months ended 31 December 2018 (unaudited)

	Film and TV series production and distribution *HK$'000*	**Film exhibition** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenue				
— External customers	**268,542**	**119,711**	**7,024**	**395,277**
Segment profit (loss)	**76,671**	**(2,393)**	**(1,161)**	**73,117**
Unallocated other gains and losses				**(2)**
Unallocated other income				**318**
Unallocated head office and corporate expenses				**(19,313)**
Finance costs				**(94)**
Share of results of associates				**646**
Profit before tax				**54,672**

For the six months ended 31 December 2017 (unaudited and restated)

	Film and TV series production and distribution *HK$'000*	Film exhibition *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue				
— External customers	31,845	91,520	3,401	126,766
Segment profit (loss)	9,484	(36,160)	(1,358)	(28,034)
Unallocated other income				253
Unallocated head office and corporate expenses				(3,885)
Finance costs				(133)
Share of results of associates				290
Loss before tax				(31,509)

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

Geographical information

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

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Hong Kong and Macau	**233,260**	97,948
The People's Republic of China (the "PRC")	**154,001**	27,754
South East Asia Region	**3,499**	—
Others	**4,517**	1,064
	395,277	126,766

The information about its non-current assets (excluded goodwill and deferred tax assets) by geographical locations of the assets are details below:

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
The PRC	**548**	10
Hong Kong	**157,210**	164,039
	157,758	164,049

4. OTHER GAINS AND LOSSES AND OTHER INCOME

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Other gains and losses		
Gain on disposal of a subsidiary *(Note 13)*	**17,715**	—
Loss on disposal of property, plant and equipment	**(2)**	—
	17,713	—
Other income		
Handling service income	**1,878**	1,456
Investment income from investments in film/drama production	**624**	531
Membership income	**655**	384
Interest income	**310**	253
Others	**1,271**	768
	4,738	3,392

5. FINANCE COSTS

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on loans from a related company	**3,462**	—
Interest for contingent consideration payable *(Note)*	**10,496**	—
Interest on bank borrowing	**94**	96
Others	**—**	37
	14,052	133

Note: Interest for contingent consideration payable is determined based on the present value of the estimated future cash outflow discounted using the effective interest rate of 7% per annum. Details are set out in note 12.

6. INCOME TAX EXPENSE (CREDIT)

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Hong Kong Profits Tax		
— Current period	**3,735**	419
PRC Enterprise Income Tax ("EIT")		
— Current period	**4,586**	394
	8,321	813
Deferred taxation	**23**	(3,269)
	8,344	(2,456)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime will be applicable to the Company for its annual reporting periods ending on or after 1 April 2018.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries are 25% from 1 January 2008 onwards.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Khorgas special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from its first profit-making year. The enterprises engaged in the encouraged industries as defined under the《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》. According to《企業所得稅優惠事項備案表》, one of the Group's subsidiaries obtained the approval from the PRC tax bureau on 23 June 2017 for entitlement of EIT exemption from 1 January 2017 to 31 December 2020.

7. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) for the period has been arrived at after charging:		
Directors' emoluments	**2,932**	3,695
Other staff costs	**18,643**	13,463
Retirement benefit scheme contributions, excluding those of Directors	**921**	597
Total staff costs	**22,496**	17,755
Auditors' remuneration	**846**	710
Depreciation of property, plant and equipment	**7,224**	7,514
Cost of film and TV rights recognised as an expense	**160,735**	9,264
Impairment loss on film and TV series production in progress (including in cost of sales)	**4,412**	—
Minimum lease payments under operating leases in respect of:		
Premises	**1,915**	1,889
Cinemas	**61,157**	57,828
Contingent rents incurred for cinemas	**660**	731
Cost of services provided	**52,551**	38,540
Cost of inventories sold	**1,988**	1,615

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings (loss)		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share	**46,509**	(28,898)

	Six months ended 31 December	
	2018	2017
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**2,595,613,733**	2,595,613,733

No diluted earnings (loss) per share is presented as the Company has no potential ordinary shares in issue during both periods.

9. TRADE AND OTHER RECEIVABLES

The aged analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the invoice date which approximates the respective revenue recognition dates, at the end of the reporting period is as follows:

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables:		
0–30 days	**12,570**	2,153
31–60 days	**27,311**	288
61–90 days	**78,112**	64
91–180 days	**123**	274
181–365 days	**7**	84
Over 365 days	**66**	12
	118,189	2,875
Prepayments for TV series production in progress	**14,065**	—
Receivable for disposal of a subsidiary *(Note 13)*	**6,156**	—
Other receivables, deposits and prepayments	**9,445**	4,271
Other deposits and prepayments for cinema operation	**5,554**	2,473
	153,409	9,619

Generally, with the exception of post-production customers and distributors for distribution and licensing fee of TV series program, who are generally granted credit period ranging from 30 to 60 days, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives and TV series program to them. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

These trade receivables relate to a number of independent customers that have a good repayment history. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$78,734,000 (30 June 2018: HK$722,000) as at 31 December 2018 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral or credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired:

	31 December 2018 *HK$'000* **(unaudited)**	30 June 2018 *HK$'000* (audited)
31–60 days	**426**	288
61–90 days	**78,112**	64
91–180 days	**123**	274
181–365 days	**7**	84
Over 365 days	**66**	12
	78,734	722

During the current interim period, the Group assesses the impairment allowance of trade receivables based on the provision matrix. In addition, trade debtors with significant balances, receivable for disposal of a subsidiary and other receivables as at 31 December 2018 were assessed individually and no impairment allowance were made on these debtors for the current interim period due to on-going relationship with and good repayment record from these debtors.

10. TRADE AND OTHER PAYABLES/RECEIPTS IN ADVANCE/CONTRACT LIABILITIES

	31 December 2018 *HK$'000* **(unaudited)**	30 June 2018 *HK$'000* (audited)
Trade payables	**32,663**	30,270
Payables in respect of acquisition of property, plant and equipment	**11,776**	21,992
Other payables and accruals	**59,045**	64,807
Advances from former shareholders of subsidiaries acquired *(Note iv and Note 12)*	**36,343**	—
Deposits received *(Note i)*	**1,409**	1,116
Deposit received from disposal of a subsidiary *(Note ii)*	**—**	2,400
	141,236	120,585
Less: amount shown under non-current liabilities *(Note i)*	**(1,243)**	(1,116)
Amount shown under current liabilities	**139,993**	119,469
Contract liabilities/receipts in advance *(Note iii)*	**139,420**	154,663

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

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 60 days	**29,355**	30,202
Within 61 to 90 days	**125**	7
Within 91 to 365 days	**3,183**	61
	32,663	30,270

Notes:

(i) Deposits received represent deposits received from a cinema circuit operator in Hong Kong for a film to be theatrical release in Hong Kong and licensing deposits received from the licensee which are refundable at the expiry of the licenses. As the expiry of licensing period ranges from November 2019 to February 2022, the balances as at 31 December 2018 and 30 June 2018 which will be refunded after 1 year from the end of each reporting period were classified as non-current liabilities.

(ii) Deposit received from disposal of a subsidiary represented the amount paid by the buyers, who were two independent third parties of the Group, for acquiring entire equity interests of an indirect wholly-owned subsidiary of the Company in prior year.

(iii) Contract liabilities/receipts in advance represent the instalments of contribution from the PRC co-producers for film and TV series production in progress and advances of distribution and licensing income received from distributors prior to release and delivery of film negatives and TV series program of HK$139,420,000 (30 June 2018: HK$154,663,000) as at 31 December 2018.

(iv) The amount is of non-trade nature, unsecured, interest-free and repayable on demand.

11. BANK BORROWING

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Variable-rate bank borrowing, secured	**—**	8,208

The carrying amount of the bank borrowing is repayable (based on scheduled repayment terms):

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within one year	—	2,441
Within a period of more than one year but not exceeding two years	—	2,515
Within a period of more than two years but not exceeding five years	—	3,252
	—	8,208
Less: Amount due shown under current liabilities which contain a repayment on demand clause	—	(8,208)
Amount shown under non-current liabilities	—	—

As at 30 June 2018, the bank borrowing was secured by a bank deposit of HK$10,000,000 placed to a bank, denominated in HK$ and carried interest at 1-month Hong Kong Interbank Offered Rate plus 2% per annum with effective interest rates ranging from 2.53% to 3.07% per annum. Interest was reset every month. The bank borrowing was fully settled by the Group during the six months ended 31 December 2018.

12. ACQUISITION OF SUBSIDIARIES

During the current interim period, the Group has acquired the entire equity interest in 霍爾果斯厚海文化傳媒有限公司 (Khorgas Houhai Culture Media Company Limited) and its subsidiary, 北京聚海文化傳媒有限公司 (Beijing Juhai Culture Media Company Limited) (collectively known as the "Khorgas Group") at a consideration of RMB450,000,000 (equivalent to HK$517,500,000) minus the receivable of RMB10,056,000 (equivalent to HK$11,565,000) taken by the former shareholders of Khorgas Group, which is payable in 3 instalments in 2018, 2019 and 2020, subject to the profit guarantee as stated in the sale and purchase agreement (the "Acquisition"). The Acquisition was completed on 28 August 2018 and details are set out in the circular issued by the Company dated 26 July 2018. The acquisition had been accounted for using the acquisition method. These subsidiaries were principally engaged in variety shows and TV program production and operation.

The fair values of net identifiable assets of Khorgas Group at the date of acquisition were as follows:

	Provisional amount recognised at the date of acquisition
	HK$'000
Plant and equipment	73
TV series production in progress	109,095
Trade and other receivables	47,144
Bank balances and cash	3,978
Trade and other payables	(19,329)
Receipts in advance	(24,903)
Advances from shareholders	(36,343)
Loan from a related company	(32,200)
Other loans	(4,658)
Net assets acquired	42,857
Cash consideration transferred	505,935
Less: discount on contingent consideration	(23,850)
Less: net assets acquired	(42,857)
Goodwill arising on acquisition	439,228

Net cash outflow arising on acquisition:

Cash consideration	505,935
Unamortised discount on contingent consideration	(13,354)
Amount unpaid and included in contingent consideration payable	
— amount shown under current liabilities	(147,096)
— amount shown under non-current liabilities	(187,393)
Exchange adjustments on contingent consideration payable	(4,192)
Cash and cash equivalents acquired	(3,978)
	149,922

The fair values of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable intangible assets and valuation of the identifiable assets and liabilities.

The acquiree contributed turnover of HK$152,469,000 and profit of HK$51,981,000 to the Group for the period between the date of acquisition and 31 December 2018.

13. DISPOSAL OF A SUBSIDIARY/ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 8 May 2018, 上海新馬電影院發展有限公司 ("上海新馬"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with two independent third parties of the Group (the "Purchasers"), pursuant to which 上海新馬 agreed to sell and the Purchasers agreed to acquire 100% equity interest of 勝馬文化傳播(上海)有限公司 ("勝馬文化"), a direct wholly-owned subsidiary of 上海新馬 which engaged in cinema operations and management in the PRC, at a consideration of RMB40,700,000 plus the cash at bank of 勝馬文化 at the completion date and minus (i) the total amount of liabilities of 勝馬文化 at the completion date and (ii) the contingent liabilities. Details of the disposal are set out in the circular issued by the Company dated 8 May 2018.

On 31 July 2018, the disposal of 勝馬文化 was completed at a net consideration of RMB20,032,000 (equivalent to HK$22,836,000) and the control of 勝馬文化 has been passed to the Purchasers. Upon completion of the disposal, 勝馬文化 ceased to be a subsidiary of the Company.

Consideration received:

	HK$'000
Consideration, satisfied by cash, net	22,836

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	18,947
Inventories	55
Trade and other receivables	3,790
Rental deposits	1,230
Bank balances and cash	565
Trade and other payables	(19,126)
Receipts in advance	(346)
Tax payable	(159)
Net assets disposed of	4,956

Gain on disposal of a subsidiary:

	HK$'000
Cash received	22,836
Reclassification of cumulative exchange reserve upon disposal to profit or loss	(165)
Less: net assets disposed of	(4,956)
Gain on disposal	17,715

Net cash inflow on disposal of a subsidiary:

	HK$'000
Cash consideration received	22,836
Amount not received and included in other receivables *(Note 9)*	(6,156)
Cash and cash equivalents disposed of	(565)
	16,115

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) film and TV series production, distribution and licensing of film rights; (ii) film exhibition; and (iii) others. The Group mainly produces Chinese films, variety shows and TV series in both Mainland China and Hong Kong. It also operates five Hong Kong based cinemas and one post-production company.

Film and TV series production and distribution

During the period under review, film and TV series production and distribution business remained as the core business of the Group with reported revenue of approximately HK$268.5 million, representing a significant increase of approximately 743.3% compared to the corresponding period in 2017. The Group released two films during the period under review, namely "L Storm" (L風暴) and "Lucid Dreams" (八步半喜怒哀樂), while no film was released during the corresponding period in 2017.

In August 2018, the Group completed the acquisition of Khorgas Houhai Culture Media Company Limited (霍爾果斯厚海文化傳媒有限公司) ("Houhai Culture"). Through its collection of intellectual property works with commercial value, and in-house developed high-quality proprietary contents, Houhai Culture can independently accomplish a series of essential operational activities ranging from planning, scriptwriting, filming, post-production, distribution to marketing, and it strives to create variety shows and film and television products that continue for multiple seasons. During the period under review, the Group consolidated its accounts for the first time, and recorded revenue mainly from the broadcasting of the variety show "Give Me Five Season II" (高能少年團第二季), and the copyright and adaptation of the manga "Hikaru no Go" (棋魂).

Film exhibition

Film exhibition was another key revenue driver for the Group. During the period under review, the Group operated five cinemas at different strategic locations across Hong Kong, including Mong Kok, Chai Wan, Causeway Bay and Tsuen Wan, providing 23 screens and over 3,000 seats. According to the statistics from Hong Kong Box Office Limited, the Hong Kong box office receipts posted an increase of approximately 5.6% in 2018 to approximately HK$1.96 billion, mainly attributable to the moderate improvement in Hong Kong film market. Benefiting from the full operation of five cinemas (in comparison with only one cinema in Hong Kong for the corresponding period in 2017), the Group's film exhibition recorded considerable growth in revenue. During the period under review, revenue from film exhibition amounted to approximately HK$119.7 million, representing a significant increase of approximately 30.8% compared to the corresponding period in 2017, and accounting for approximately 30.3% of total revenue of the Group. Despite a substantial increase in revenue, this business segment still recorded a loss of approximately HK$2.4 million due to relatively low cinema attendance. However, the loss decreased compared to approximately HK$36.2 million for the corresponding period of 2017 due to five cinemas being put into operation during the period under review.

Given that the Group's cinema in Mainland China, located at "Vivo City" (怡豐城), Shanghai, commenced its operation in late September 2017, its profitability has not been proven and there exist uncertainties as to its financial contributions and prospects. The Group has completed the disposal of this business in July 2018. The net proceeds from the disposal of HK$17.7 million will be used to further invest in other business segments as part of the resource reallocation of the Group.

Others

During the period under review, the post-production, advertising, marketing and publication businesses of the Group recorded a total revenue of approximately HK$7.0 million, representing a significant increase of approximately 106.5% compared to approximately HK$3.4 million for the corresponding period of 2017. This business segment recorded a loss of approximately HK$1.2 million during the period under review, but the loss decreased compared to approximately HK$1.4 million for the corresponding period of 2017.

The Group will continue to maintain this business segment in a small-scale operation and continuously review its overall structure and strategies, thereby creating a synergy effect on the Group's businesses.

OUTLOOK

In 2019, the Group has entered into formal contracts with various artiste agencies and two famous scriptwriters, namely Shu Huan (束煥) and Su Biao (蘇彪) to develop a team of all-round artiste and scriptwriting and to strengthen the competitiveness of the Group. In particular, various artiste agencies together with their artistes, including Yang Yang (楊洋), Song Qian (宋茜), Wu Chun (吳尊), Meng Ziyi (孟子義), Liu Yichang (劉奕暢), Li Yitong (李一桐), Zhao Lusi (趙露思), Li Zefeng (李澤鋒) and Ling Meishi (淩美仕) have joined the Group. Meanwhile, agencies of Kan Qingzi (闞清子), Zhao Da (趙達), Shi Shi (施詩), Zhang Xiaoqian (張曉謙), Wang Yi (王藝), Oscar Jiang (江銘亮), Re Yina (熱依娜), Wu Yue (吳月), Chen Jiaxin (陳嘉歆), Ma Mengjia (馬夢嘉), Liang Siyu (梁思雨), Xu Kexin (許可昕), You Lixi (優麗絲), Dai Yu Dan (代雨丹) and Wang Jingyi (王晶怡) will enter into contracts with the Group as well. The Board believes that a quality artiste team will be a strong growth driver for a series of copyright projects of the Group.

In addition, as "the script is the soul of the whole play", the excellent scriptwriting team of the Group is hence a guarantee for the production of high quality TV series. The cooperation with two famous scriptwriters will provide the greatest support for the production of high quality TV series in the future.

In respect of film and TV series production and distribution, currently, a number of copyright projects of the Group are under pre-production stage, including a reality television drama adapted from "Hikaru no Go" (棋魂) with Japanese manga copyright and sold to iQIYI, an online platform and "Romance of the Youth" (少年江湖物語), a new martial arts light comedy set in ancient China starring two male leads; "Redemption on the Blade" (刀鋒上的救贖), a mystery detective drama sold to Tencent, an online platform, and originally written by Zhi Wen (指紋), who is the screenwriter of "White Night Chase" (白夜追凶); "Tribes and Empires: Mrs Hu Zhu" (九州•斛珠夫人), a TV series with the copyright of Jiuzhou series sold to iQIYI, an online platform, and starring Yang Mi (楊冪); and "Persuader" (甲方乙方之勸退師), a TV series written by Shu Huan (束煥) and to be produced by Feng Xiaogang (馮小剛), the script of which is about to be completed.

Moreover, the Group has reached agreements with some owners of popular copyrights and will develop, produce and distribute series of works under the following copyrights: "Unnatural" (非自然死亡), a Japanese TV series; "Love Destiny" (天生一對), a Thai TV series; and novels including "Imperial Harem" (後宮•真煩傳), "Next To The Last Girlfriend" (倒數第二個女朋友), "Turn Red into Green" (看朱成碧), "Nine Knights in Beijing" (京門九俠), "Hear" (聽見風說愛你的聲音) and "Romance in the City" (半城風月), etc.

For variety shows, the Group intended to broadcast "I Love You, Me Too" (喜歡你，我也是), a proprietary brand-new romance detective reality show, on iQIYI, an online platform, and to continue to launch the third season of "Give Me Five" (高能少年團), a proprietary variety brand with two seasons broadcasted. "National Game Carnivals" (全民遊戲嘉年華), a new gaming variety show, is also under development.

Looking forward, the Group will continue to explore opportunities in relation to the development of the film, television and media industry leveraging its outstanding film production capabilities, especially cooperation opportunities derived from the upstream and downstream of the industry chain, with an aim to strengthen the Group's income base. With the joining of these famous artistes and their agencies, the Group will gradually expand the size of its artiste agency business, continue to identify high-quality artistes and simultaneously launch co-branding partnerships, Internet and Pan-entertainment products and poverty alleviation and charitable products, with a view to further diversifying its operation, enhancing its profitability and generating satisfactory returns for the shareholders of the Company.

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group for the period under review amounted to approximately HK$395.3 million, representing an increase of approximately HK$268.5 million or 211.8% compared to the corresponding period of 2017, mainly contributed by revenue from the business segments of film and TV series production and distribution and film exhibition of approximately HK$268.5 million and HK$119.7 million, respectively. During the period under review, the Group (i) released two films including "L Strom" (L風暴), a large-scale action film starring Louis Koo (古天樂) and Julian Cheung (張智霖) and "Lucid Dreams" (八步半喜怒哀樂), a general-scale drama film starring Kevin Cheng (鄭嘉穎), Louis Cheung (張繼聰), Dada Chan (陳靜) and Stephy Tang (鄧麗欣) and directed by Teddy Robin (泰迪羅賓), while no film had been released during the corresponding period of 2017, and (ii) recorded broadcast revenue from the variety show "Give Me Five Season II" (高能少年團第二季) produced by Houhai Culture, and obtained revenue from the copyright and adaptation of the manga "Hikaru no Go" (棋魂), thus revenue from film and TV series production and distribution recorded a significant year-on-year increase of 743.3%. For the film exhibition segment, the revenue for the period under review recorded a significant increase of approximately 30.8% compared to the corresponding period of 2017, which was due to the full operation of five cinemas.

Gross profit of the Group was approximately HK$174.6 million representing an increase of approximately HK$97.2 million or approximately 125.7% compared to the corresponding period of 2017. Gross profit margin for the period under review was approximately 44.2%, representing a decrease compared to approximately 61.0% in the corresponding period of 2017. This was mainly attributable to (i) additional revenue recorded from "S Storm" (S風暴) released in Chinese cinemas in the corresponding period of 2017, resulting in gross profit margin of film and TV series production and distribution amounting to 70.9%, while such additional revenue was absent in the period under review; and (ii) the newly acquired Houhai Culture operation accounted for 38.6% of the Group's revenue during the period under review while its gross profit margin was lower than the existing business. Such changes in sales mix also resulted in lower overall gross profit margin of the Group.

Other income

Other income was approximately HK$4.7 million for the period under review, representing an increase of approximately HK$1.3 million or approximately 39.7% compared to the corresponding period of 2017. This was mainly due to the increase in the handling service income and membership income from film exhibition business.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$4.8 million or 5.2% from approximately HK$92.3 million for the corresponding period of 2017 to approximately HK$97.1 million for the period under review. This was mainly due to the increase in selling and distribution expenses of the film exhibition business, which in turn resulted from the higher rental expenses arising from the full operation of five cinemas in Hong Kong.

Administrative expenses

Administrative expenses increased by approximately HK$5.3 million or approximately 23.9% from approximately HK$22.2 million for the corresponding period of 2017 to approximately HK$27.5 million for the period under review, which was attributable to (i) the increase of legal and professional fee of approximately HK$1.5 million related to certain corporate actions and transactions during the period under review and (ii) the increase of salary expense of approximately HK$4.7 million during the period under review.

Share of results of associates

During the period under review, the Group had two associates, namely JDH Group and Supreme Art Entertainment Limited ("Supreme Art").

The operation of JDH Group has recorded a profit attributable to the Group of approximately HK$0.2 million as compared to a profit attributable to the Group of approximately HK$0.3 million for the corresponding period of 2017. JDH Group generated revenue from the businesses of comics publication and licensing of its database of comic stories and comic characters for films, TV series and theme park development as well as related products merchandising.

The operation of Supreme Art has recorded a profit attributable to the Group of approximately HK$0.4 million (2017: approximately HK$0.03 million). Supreme Art is engaged in the provision of artiste management and agency services which are benefiting from the Group's film production business.

Share of results of a joint venture

Bounty Productions Limited ("BPL") was set up by the Group with two independent third parties for the production and distribution of the film, "Bounty Hunters" (賞金獵人), in which the Group owned 40% interest. BPL has recorded a loss attributable to the Group of approximately HK$0.01 million during the period under review (2017: profit attributable to the Group of approximately HK$0.3 million).

Profit for the period under review

The Group's profit and total comprehensive income attributable to owners of the Company for the period under review amounted to approximately HK$46.5 million (31 December 2017: loss of approximately HK$28.9 million) and approximately HK$52.4 million (31 December 2017: total comprehensive expense of approximately HK$30.2 million) respectively. The Group's turnaround for its performance was mainly due to (i) profit contributed by Houhai Culture; and (ii) revenue growth generated from the production and distribution of the release of film "L Storm" (L風暴).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group's bank balances and cash and pledged bank deposits amounted to approximately HK$113.4 million (30 June 2018: approximately HK$87.0 million), which are denominated mainly in Hong Kong Dollar ("HK$"), United States Dollar ("US$") and Renminbi ("RMB").

As at 31 December 2018, the Group's bank borrowing and loan from a related company amounted to Nil and approximately HK$197.2 million, respectively (30 June 2018: approximately HK$8.2 million and Nil, respectively). As at 31 December 2018, the Group's net gearing ratio, representing the ratio of loans from a related company and bank borrowing (net of cash and cash equivalents) to the total equity of the Group, was approximately 49.8% (30 June 2018: Nil).

As at 31 December 2018, the Group had total non-current assets of approximately HK$598.1 million (30 June 2018: approximately HK$165.2 million), net current liabilities of approximately HK$87.1 million (30 June 2018: approximately HK$47.8 million) and net assets of approximately HK$168.5

million (30 June 2018: approximately HK$116.3 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 0.8 as at 31 December 2018 (30 June 2018: approximately 0.9).

During the period under review, the Group mainly funded its liquidity by the net proceeds from the listing of the shares of the Company, bank borrowing, loan from a related company and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 December 2018.

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

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made specific enquiries, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 31 December 2018.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the six months ended 31 December 2018, it met all the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Listing Rules except for the following deviation:

Under Code Provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Zhang Liang, Johnson is the Chairman of the Board and is responsible for the overall strategy planning and policy making of the Group while the daily operation and management of the Company has been monitored by the executive Directors as well as the senior management of the Group.

On 17 September 2018, the Company appointed Ms. Zhao Wenzhu as the President of the Company, serving the function of CEO. From then on, the roles of the Chairman and CEO are separated.

The Company has no written terms on the general division of responsibilities between the Chairman and the President. The Board considers that the responsibilities of the Chairman and the President are clear and distinctive and hence written terms thereof are not necessary.

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

CHANGES IN A DIRECTOR'S BIOGRAPHICAL DETAILS

Changes in a Director's biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Zhang Liang, Johnson, the Chairman and Executive Director, has been appointed as the chairman of the board of Top Dynamic International Holdings Limited (stock code: 2203), a company listed on the main board of the Stock Exchange, on 11 January 2019 in which Mr. Zhang is currently its executive director.

Saved as disclosed above, the Company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has three members comprising three Independent Non-executive Directors, Mr. Chang Eric Jackson (Chairman of the Audit Committee), Mr. Wang Bo and Mr. Xiang Feng, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are mainly to communicate with the external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to review and assess the financial reporting, risk management and internal control systems of the Company and making recommendations thereof. The interim results of the Group for the six months ended 31 December 2018 have not been audited but have been reviewed by the Company's external auditor, Deloitte Touche Tohmatsu, and the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.transmit-ent.com) and the Stock Exchange (www.hkexnews.hk). The Interim Report 2018/19 will be dispatched to the shareholders of the Company in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the second half of 2018. I would also like to express heartfelt gratitude to all of our customers and suppliers on behalf of the Group, and wish for their continuous supports in the future. We will keep working closely with our shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group's development.

By order of the Board
Transmit Entertainment Limited
Zhang Liang, Johnson
Chairman

Hong Kong, 27 February 2019

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