

Emperor Culture Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) principally engages in entertainment, media and cultural development businesses, which mainly include cinema operation.

MARKET REVIEW

During the year ended 30 June 2023 (the “Year”), cinemas in Hong Kong resumed normal operations and a revival in consumption sentiment was seen. Consumers had strong desire for leisure spending and resumed visiting the cinemas. Also, the Hong Kong government has implemented the Hong Kong-Asian Film Collaboration Funding Scheme under the Film Development Fund, which supports co-production of films by local and Asian production teams, aiming to enhance the influence of Hong Kong films in Asian markets and explore new distribution channels, which helped promote the development of Hong Kong films.

In mainland China, pandemic containment measures were lifted in early 2023. Nevertheless, it took time for citizens to get back to normal life, hence a concrete revival in consumer spending was only seen in the last quarter of the Year. Against this backdrop, annual box office sales in mainland China, mainly led by Chinese-made blockbusters, reached RMB20 billion in May 2023, breaking the record set in 2022.

RESULTS

During the Year, the Group recorded a 48.7% increase in revenue, to HK\$456.2 million (2022: HK\$306.7 million), mainly attributable to the recovery of the film industry in Hong Kong. Nevertheless, with the recognition of an impairment allowance related to the right-of-use assets and fixed assets after the impairment assessment, and an increase in operating expenses arising from the opening of new cinemas, the Group’s net loss for the Year amounted to HK\$317.0 million (2022: HK\$218.4 million). Basic loss per share was HK\$0.10 (2022: HK\$0.06).

BUSINESS REVIEW

Revenue from the cinema operation segment increased by 48.7% to HK\$456.2 million (2022: HK\$306.7 million), which mainly included the revenue from box office takings amounting to HK\$389.1 million (2022: HK\$270.1 million), accounting for 85.3% (2022: 88.1%) of the cinema operation revenue. In terms of revenue by geographical segment, revenue from the Hong Kong market increased by 81.7% to HK\$295.8 million (2022: HK\$162.8 million) and accounted for 64.8% (2022: 53.1%) of the cinema operation revenue, while revenue from the mainland China market increased slightly to HK\$134.0 million (2022: HK\$122.9 million) and accounted for 29.4% (2022: 40.1%)

of the cinema operation revenue; the latter figure reflected the recovery in mainland China only occurring towards the end of the Year.

During the Year, the Group opened four cinemas in mainland China – in Changsha, Shenzhen, Foshan and Chengdu. As at 30 June 2023, the Group operated a total of 22 cinemas in mainland China, Hong Kong, Macau and Malaysia, offering a total of 171 houses with more than 24,000 seats. All these cinemas were in strategic locations, providing premium entertainment services. 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[®] and CINITY theatre systems, 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.

PROSPECTS

Although the majority of countries have recovered from the pandemic and resumed normal business activities, headwinds such as interest rate hikes, sustained inflation, political tensions, etc, are still creating uncertainties for the macro economy, making consumers cautious with their spending. The Group will therefore continue with prudent expansion of its network. Subsequent to the Year, an *Emperor Cinemas Plus+* was opened in The Wai, which is a new shopping mall in Tai Wai, serving as another iconic community landmark in the New Territories, Hong Kong; and an *Emperor Cinemas* was opened in Chongqing in mainland China. In 2024, one *Emperor Cinemas* is expected to be opened in mainland China and one *Emperor Cinemas Plus+* is expected to be opened in Hong Kong.

With the continued increase in the disposable income and living standards in mainland China, there will be room for further development in terms of leisure spending; coupled with the five-year plan laid out by the China Film Administration, the Group is positive about the outlook for the film exhibition market. Leveraging its long-established Emperor brand label, the Group will continue strengthening its core competencies, in order to seize the opportunities and bring sustainable returns to its shareholders.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

As at 30 June 2023, the Group's cash and cash equivalents amounted to HK\$82.0 million (2022: HK\$117.4 million), which were mainly denominated in Hong Kong dollars and Renminbi. To finance its operations and capital expenditure, the Group utilizes cash flows generated from operations and from loan facilities granted by a related party and a bank. As at 30 June 2023, the Group had total borrowings of HK\$685.9 million (2022: HK\$542.7 million), which comprised a loan from a related party of HK\$595.6 million (2022: HK\$452.5 million), bank loan of HK\$20.0 million (2022: HK\$20.0 million) and amount due to non-controlling interest of HK\$70.3 million (2022: HK\$70.2 million), respectively. Except for the amount due to non-controlling interest, which is unsecured and interest-free, 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 total assets) was 48.9% (2022: 30.0%) as at 30 June 2023.

Management has closely monitored the development of the pandemic and its impact on the current and anticipated liquidity of the Group in the future. Having considered the existing improvement measures implemented by the Group and the available loan facilities granted by the related party and the bank, the directors of the Company (the "Directors" or "Board") believe that the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future.

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, Macau Pataca and Malaysian Ringgit. As most of the Group's external monetary assets, liabilities and related transactions were transacted at and denominated in the functional currency of its foreign operations, the Group was not exposed to significant fluctuation in foreign exchange rates during the Year that would have material impacts on its financial performance.

LEGAL LITIGATION

During the Year, the Company announced that Emperor UA Cinemas Limited ("Emperor UA", a 70%-owned subsidiary of the Company) commenced a proceeding in the Court of First Instance in the High Court of Hong Kong Special Administrative Region (the "High Court") by way of originating summons for an injunction order

restraining Lark China Cinema Investments Limited (“UA Minority Shareholder”, a 30%-equity shareholder of Emperor UA, and a business partner since the commencement of business of **Emperor UA Cinemas**) from presenting a winding-up petition against Emperor UA, based on the alleged shareholder loan of approximately HK\$70.0 million (“Alleged Shareholder Loan”) in respect of which a statutory demand (“Statutory Demand”) was served on Emperor UA by UA Minority Shareholder. Afterwards, the Company announced that the High Court granted a permanent full injunction order in favour of Emperor UA restraining the presentation of a winding-up petition based on the Statutory Demand. Besides, UA Minority Shareholder started a new court proceeding by filing a winding-up petition (the “Petition”) to the High Court against Emperor UA under the provision of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) in relation to the Alleged Shareholder Loan and inter alia, on grounds of insolvency.

Subsequently, the Company announced the cessation of the entire operation of a wholly-owned operating company of Emperor UA, 英皇娛樂影院（廣東）有限公司 (Emperor UA Cinemas (Guangdong) Company Limited*) (“Emperor UA (Guangdong)”), which was primarily engaged in the operation of seven **Emperor UA Cinemas** in mainland China. In January 2023, UA Minority Shareholder has withdrawn the Petition and the winding up proceedings have come to an end. Details were set out in the Company’s announcements dated 15 July 2022, 26 July 2022, 21 November 2022 and 4 January 2023.