CHINA DIGITAL CULTURE (GROUP) LIMITED
中國數碼文化(集團)有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8175)

AUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
AND
SUSPENSION OF TRADING

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

RESULTS

The board (the "Board") of Directors presents the audited consolidated results of the Group for the year ended 31 December 2020, together with the comparative audited figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
Revenue	*4*	**56,358**	181,367
Cost of services rendered		**(32,082)**	(129,758)
Gross profit		**24,276**	51,609
Other income and other gains	*5*	**12,075**	317,235
Selling and distribution costs		**(2,245)**	(2,823)
Administrative and other expenses		**(369,855)**	(770,906)
Finance costs		**(33,546)**	(34,129)
Fair value change on contingent consideration		**–**	(1,351)
Share of results of an associate		**(547)**	(891)
Share of results of a joint venture		**(573)**	(1)
Loss before taxation	*6*	**(370,415)**	(441,257)
Income tax	*7*	**8,481**	19,395
Loss for the year	*6*	**(361,934)**	(421,862)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Fair value changes of financial assets at fair value through other comprehensive income ("FVTOCI")		**(54,664)**	1,642
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**9,560**	(4,391)
Foreign currency translation reserve realised on disposal of a subsidiary		**548**	43
Share of other comprehensive loss of a joint venture and disposal of a joint venture		**(108)**	57
		(44,664)	(2,649)
Total comprehensive expense for the year		**(406,598)**	(424,511)
Loss attributable to:			
– Owners of the Company		**(360,414)**	(419,868)
– Non-controlling interests		**(1,520)**	(1,994)
		(361,934)	(421,862)
Total comprehensive expense attributable to:			
– Owners of the Company		**(404,223)**	(422,413)
– Non-controlling interests		**(2,375)**	(2,098)
		(406,598)	(424,511)
Loss per share	*9*		
Basic (HK cents)		**(20.90)**	(21.38)
Diluted (HK cents)		**(20.90)**	(21.38)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment		**623**	1,977
Right-of-use assets		**1,877**	5,180
Intangible assets	*10*	**178,389**	266,507
Goodwill	*11*	**20,168**	145,152
Interest in an associate		**55**	591
Interest in joint ventures		**–**	–
Financial assets at FVTOCI		**7,484**	62,148
Deposit for film production		**105,773**	99,555
Loans to and due from joint ventures		**–**	–
Prepayments	*12*	**52,357**	54,135
		366,726	635,245
Current assets			
Inventories		**24,509**	17,022
Financial assets at fair value through profit or loss ("FVTPL")		**557**	1,091
Investment in TV show		**–**	52,698
Accounts and other receivables	*12*	**46,450**	86,442
Bank balances and cash		**26,023**	32,568
Tax receivable		**723**	573
Non-current asset and assets of disposal group classified as held for sale	*13*	**–**	13,769
		98,262	204,163
Current liabilities			
Accounts and other payables		**28,593**	52,933
Interest-bearing borrowing		**25,000**	–
Lease liabilities		**1,385**	3,150
Tax payable		**17,931**	18,346
Liabilities of disposal group classified as held for sale	*13*	**–**	4,310
		72,909	78,739
Net current assets		**25,353**	125,424
Total assets less current liabilities		**392,079**	760,669
Non-current liabilities			
Convertible bonds		**435,246**	401,834
Lease liabilities		**338**	2,150
Deferred tax liabilities		**22,512**	31,305
		458,096	435,289
NET (LIABILITIES)/ASSETS		**(66,017)**	325,380
Capital and reserves			
Share capital	*14*	**92,749**	80,807
Reserves		**(150,651)**	250,313
(Deficit)/equity attributable to owners of the Company		**(57,902)**	331,120
Non-controlling interests		**(8,115)**	(5,740)
TOTAL (DEFICIT)/EQUITY		**(66,017)**	325,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

CHINA DIGITAL CULTURE (GROUP) LIMITED (the "Company") is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The Company's shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its principal place of business in Hong Kong is located at Unit 17B, 17/F, United Centre, 95 Queensway, Hong Kong.

The Company and its subsidiaries (together, the "Group") are principally engaged in the business of licensing and sales of entertainment, sports and music content, operating E-sports and webcast celebrity businesses, operating film-based cultural parks and tourism focused projects, planning and design of concerts and providing marketing and promotional services for professional athletes.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

3. APPLICATION OF AMENDMENTS TO HKFRSs

(a) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	Covid-19-Related Rent Concessions

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(i) *Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

(ii) *Impacts on application of Amendments to HKFRS 3 Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The application of the amendments in the current year had no impact on the consolidated financial statements, but may impact future periods should the Group make any acquisition.

(iii) *Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform*

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The application of the amendments in the current year had no impact on the consolidated financial statements.

(iv) *Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

– any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

– there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs. The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has benefited from 3 months waiver of lease payments in People's Republic of China ("PRC"). The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of HK$303,000, which has been recognised as variable lease payments in profit or loss for the current year.

(b) New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendment to HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendments to HKAS 1	Classification of Liabilities as Current or Non- current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020	1 January 2022

Except for the new and amendments to HKFRSs mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Going concern basis

On 7 May 2020, the Company received a writ of summons with statement of claim dated 21 April 2020 (the "Claim Documents") issued in the Court of First Instance of the High Court of Hong Kong on 7 May 2020 by the solicitors acting for Hangzhou Liaison Interactive Information Technology Co., Ltd as the plaintiff (the "Plaintiff") against the Company as defendant. Based on the Claim Documents, the Plaintiff is seeking various reliefs against the Company for the restitution of benefit under a subscription agreement dated 8 February 2017 in relating to convertible bonds in aggregate of HK$412,500,000 issued by the Company during the year ended 31 December 2017 ("Subscription Agreement") in the sum of (i) HK$372,843,493 on the ground of misrepresentation; or alternatively (ii) HK$437,300,856 as a result of breach of the Subscription Agreement, the bond instrument (the "Instrument") dated 19 June 2017 and the terms and condition of the convertible bonds contained in the Instrument; or alternatively (iii) HK$105,718,493 under certain clause of a supplement deed dated 16 May 2019 and related interest ("Allegations"). Up to the date of the report, the directors are in the process of mediation to reach a settlement with the Plaintiff.

In the opinion of the directors, the Company has valid ground to defense the Allegations and it is no effect to the financial position of the Group. Nevertheless, the directors of the Company appointed the lawyer to preparing a defense to the Claim Documents.

Notwithstanding the preparation for the defense of the Claim Documents, the directors of the Company are taking measures to improve the liquidity and solvency position of the Group. These measures include (i) negotiations with potential strategic investors in respect of a possible equity contribution to the Company; (ii) negotiations with Hangzhou Liaison to settle the legal case; (iii) speeding up the collection of receivables process; (iv) tightening the operating cash outflows through cutting costs and capital expenditures; (v) the Group introduced an investor to subscribe 67 shares of Summer Eagle Limited, a wholly-owned subsidiary of the Company, by way of capital injection at the consideration of USD4,700,000 (equivalent to approximately HK$36,660,000); and (vi) issued 400,000,000 shares at HK$0.1 to four independent third parties under share subscription on 26 March 2021.

As at the date of approval of these consolidated financial statements, these measures had not yet been concluded or implemented. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the measures taken by the directors of the Company in particular the outcome of the defense of the Allegations as described above.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2020 HK$'000	Year ended 31 December 2019 HK$'000
Entertainment		
– Licensing of music content	**5,942**	3,579
– Consultancy service income	**–**	3,211
– Sale of entertainment content and products	**17,150**	103,915
– Managing eSports teams and eSports broadcasters	**23,664**	15,675
– Celebrity and artists training course agency business	**–**	11,182
Sports		
– Licensing of sports events content	**5,596**	32,694
Theme Park		
– Theme park operation service income	**4,006**	11,111
Total	**56,358**	181,367

5. OTHER INCOME AND OTHER GAINS

	Year ended 31 December 2020 HK$'000	Year ended 31 December 2019 HK$'000
Bank interest income	**7**	115
Loan interest income	**–**	1,039
Gain on disposal of subsidiaries	**–**	60,505
Gain on derecognition of convertible bond	**–**	12,360
Gain on disposal of right-of-use assets	**20**	80
Gain on derecognition of contingent consideration	**–**	240,000
Gain on disposal of joint venture	**986**	–
Referral income	**9,360**	–
Government grants	**745**	–
Rental concession	**303**	–
Sundry income	**654**	3,136
	12,075	317,235

During the current year, the Group recognised government grants of HK$745,000 in respect of Covid-19-related subsidies, of which HK$212,000 relates to Employment Support Scheme provided by the Hong Kong government.

6. LOSS BEFORE TAXATION

Loss for the year has been arrived at after charging:

	Year ended 31 December 2020 HK$'000	Year ended 31 December 2019 HK$'000
Interest on convertible bonds	**33,412**	33,786
Interest on bank loans	**–**	84
Interest on lease liabilities	**134**	259
	33,546	34,129
Other items		
Employee benefits expenses (including directors' remuneration)		
Salaries and allowances	**16,137**	21,892
Contribution to defined contribution retirement schemes	**1,215**	2,453
Equity-settled share-based payment	**1,401**	4,654
	18,753	28,999
Auditor's remuneration	**2,400**	2,400
Amortisation of intangible assets		
– included in cost of services rendered	**4,415**	4,415
– included in administrative and other expenses	**25,426**	18,887
Exchange loss, net	**3**	17
Depreciation of property, plant and equipment	**1,721**	2,644
Depreciation of right-of-use assets	**3,717**	4,541
Expenses related to short-term leases	**904**	1,861
Allowance for accounts receivable	**22,976**	21,823
Allowance for loans to and due from joint ventures	**1,471**	1,185
Allowance for other receivables	**4,969**	18,455
Impairment loss on intangible asset	**60,996**	79,310
Impairment loss on goodwill	**124,514**	495,935
Impairment loss on interest in joint ventures	**–**	648
Written-down of inventories	**8,500**	39,000
Loss on derecognition of investment in TV show	**37,722**	–
Loss on disposal of a subsidiary	**3,771**	–
Loss on disposal of property, plant and equipment	**423**	3
Write-off of deposits for acquisition of unlisted investment	**–**	4,680
Fair value loss on financial assets at FVTPL	**534**	2,712

7. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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 gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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 is 25% for both years.

The Republic of China Income Tax is calculated at 19% on the estimated assessable profits of the Taiwan subsidiaries during the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Year ended 31 December 2020 HK$'000	Year ended 31 December 2019 HK$'000
Hong Kong Profits Tax		
– Current year provision	**–**	2,145
– Under/(over) provision in prior year	**212**	(155)
EIT		
– Current year provision	**–**	17
– Under/(over) provision in prior year	**100**	(47)
Deferred tax		
– Current year	**(8,793)**	(21,355)
Total tax credit for the year	**(8,481)**	(19,395)

8. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for both years.

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share was based on the loss attributable to owners of the Company of HK$360,414,000 (2019: HK$419,868,000) and the weighted average number of the 1,724,157,000 (2019: 1,964,211,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and the exercise of the Company's share options since their assumed conversion would result in a decrease in loss per share for both years.

10. INTANGIBLE ASSETS

	Usage rights of movie database	Image rights in eSports field	Exclusive operation rights of theme park	Agency license	Trademark	Music license	Usage right of electric game	Broadway musical license	Steaming platform	Software license right	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost											
At 1 January 2019	44,150	23,228	169,355	40,295	15,757	13,261	35,000	–	–	–	341,046
Addition	–	–	–	–	–	–	–	50,000	23,400	7,800	81,200
Exchange alignment	–	(6)	–	–	–	–	–	–	–	–	(6)
At 31 December 2019	**44,150**	**23,222**	**169,355**	**40,295**	**15,757**	**13,261**	**35,000**	**50,000**	**23,400**	**7,800**	**422,240**
Written off	**-**	**(12,090)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,800)**	**(19,890)**
Exchange alignment	**-**	**45**	**-**	**-**	**-**	**-**	**-**	**3,455**	**-**	**-**	**3,500**
At 31 December 2020	**44,150**	**11,177**	**169,355**	**40,295**	**15,757**	**13,261**	**35,000**	**53,455**	**23,400**	**-**	**405,850**
Accumulated amortisation											
At 1 January 2019	13,245	22,929	–	7,156	3,414	5,947	286	–	–	–	52,977
Charge for the year	4,415	103	–	4,029	3,151	2,140	3,488	5,376	–	600	23,302
Impairment	–	–	79,310	–	–	–	–	–	–	–	79,310
Exchange alignment	–	(5)	–	–	–	–	562	(413)	–	–	144
At 31 December 2019	**17,660**	**23,027**	**79,310**	**11,185**	**6,565**	**8,087**	**4,336**	**4,963**	**-**	**600**	**155,733**
Charge for the year	**4,415**	**105**	**-**	**4,030**	**3,152**	**2,142**	**3,469**	**5,328**	**-**	**7,200**	**29,841**
Written off	**-**	**(12,090)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,800)**	**(19,890)**
Impairment	**-**	**-**	**-**	**25,080**	**6,040**	**3,032**	**3,444**	**-**	**23,400**	**-**	**60,996**
Exchange alignment	**-**	**33**	**-**	**-**	**-**	**-**	**(215)**	**963**	**-**	**-**	**781**
At 31 December 2020	**22,075**	**11,075**	**79,310**	**40,295**	**15,757**	**13,261**	**11,034**	**11,254**	**23,400**	**-**	**227,461**
Net carrying value											
At 31 December 2020	**22,075**	**102**	**90,045**	**-**	**-**	**-**	**23,966**	**42,201**	**-**	**-**	**178,389**
At 31 December 2019	26,490	195	90,045	29,110	9,192	5,174	30,664	45,037	23,400	7,200	266,507

11. GOODWILL

	2020	2019
	HK$'000	HK$'000
Cost		
At 1 January	**690,632**	690,632
Disposal of subsidiary	**(470)**	–
At 31 December	**690,162**	690,632
Impairment		
At 1 January	**545,480**	49,545
Impairment recognised	**124,514**	495,935
At 31 December	**669,994**	545,480
Net carrying value		
At 31 December	**20,168**	145,152

Goodwill arose because the consideration paid for the acquisitions effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Impairment testing on goodwill

The carrying amount of goodwill was allocated to the CGUs identified according to the country of operations and business segments as follows for impairment test:

	2020	2019
	HK$'000	HK$'000
Entertainment		
– Music content	**–**	–
– Film and TV series production and distribution	**–**	4,386
– Television-related content	**–**	3,981
– Event production and online broadcasting	**–**	20,672
– Managing eSports teams and eSports broadcasters	**–**	17,886
– Celebrity and artists training course agency business	**–**	44,821
Sports		
– Sports events content	**–**	1,924
– Marketing and promotional services	**20,168**	51,482
Theme Park		
– Theme park operation services	**–**	–
	20,168	145,152

The recoverable amount of the CGUs has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the directors covering a 5-year period and discount rate of 15%-28% (2019: 19%-45%). Cash flows beyond the 5-year (2019: 5-year) period have been extrapolated using a 2%-3% (2019: 2-3%) long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The management compared the recoverable amounts of the CGUs and their carrying amounts based on value in use calculations. Accordingly, impairment on goodwill with amount HK$124,514,000 (2019: HK$495,935,000) was recognised during the year.

12. ACCOUNTS AND OTHER RECEIVABLES

	Notes	**2020** **HK$'000**	2019 HK$'000
Accounts receivable			
From third parties		**40,991**	96,291
Less: Allowance for credit losses	*(i)*	**(24,828)**	(23,769)
	(i)	**16,163**	72,522
Prepayments, deposit and other receivables – current			
Deposits, prepayments and other receivables		**50,265**	28,667
Less: Allowance for credit losses		**(23,424)**	(18,455)
		26,841	10,212
Prepayments to licensors and service providers		**1,778**	1,778
Due from directors of subsidiaries of the Company	*(ii)*	**1,668**	1,571
Due from a director	*(iii)*	**–**	359
		30,287	13,920
		46,450	86,442
Prepayments – non-current			
Use of the Likeness of artists for the Group's e-Sport team		**2,357**	4,135
Musical performances' contract	*(iv)*	**50,000**	50,000
		52,357	54,135
		98,807	140,577

Notes:

(i) Accounts receivable

In general, the Group allows a credit period from 30 days to 90 days to its customers upon presentation of invoices. Included in the Group's accounts receivable balances are debtors with carrying amounts of HK$10,943,000 (2019: HK$65,927,000), which were past due at the end of the reporting period but not impaired as there has not been any significant change in credit quality and part of which has been subsequently settled. These relate to several customers for whom there is no recent history of default.

The following is an ageing analysis of accounts receivable, net of allowance for credit losses presented based on invoice date is as follows:

	2020	2019
	HK$'000	HK$'000
0-30 days	**5,220**	6,595
31-90 days	**6,161**	10,984
91-365 days	**801**	38,728
Over 365 days	**3,981**	16,215
	16,163	72,522

(ii) Due from directors of subsidiaries of the Company

The amounts due from directors of the Company's subsidiaries are unsecured, interest-free and have no fixed repayment term.

(iii) Due from a director

The amount due from a director is unsecured, interest-free and has no fixed repayment term.

Name of directors	**Maximum balance during the year**	**2020**	2019
	HK$'000	**HK$'000**	HK$'000
Hsu Tung Chi, Chris	359	**–**	359

(iv) Prepayments of musical performances contract

On 31 October 2019, the Group signed an agreement with an independent third party to perform 100 musical concerts with consideration HK$50,000,000 within 10 years. As the musical concerts will perform in the Theme Park, so the management considered the prepayment is non-current assets.

13. NON-CURRENT ASSET AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	Notes	**2020 HK$'000**	2019 HK$'000
Total assets classified as held for sale			
Interest in joint venture	*(i)*	**–**	4,922
Assets of disposal group	*(ii)*	**–**	8,847
		–	13,769
Total liabilities classified as held for sale Liabilities of disposal group	*(ii)*	**–**	4,310

Notes:

(i) On 5 December 2019, a subsidiary of the Group entered into an agreement with an independent third party to dispose the joint venture. The directors concluded that the interest in joint ventures should be classified as held for sale as at 31 December 2019 as the disposal was completed on 1 April 2020.

(ii) Disposal group classified as held for sale

For the year ended 31 December 2019

In December 2019, a subsidiary of the Group entered into an agreement with an independent third party to dispose of 100% equity interest in a subsidiary, namely Digital Culture and Creative Company Limited, for a cash consideration of US$1.

Digital Culture and Creative Company Limited is principally engaged in training, nurturing and managing eSports teams and eSports. Management concluded that the assets and liabilities of Digital Culture and Creative Company Limited should be classified as held-for-sale as at 31 December 2019 as it believes that it is highly probable that the disposal will be completed within twelve months from the date when Digital Culture and Creative Company Limited was classified as disposal group classified as held for sale. The disposal was completed on 12 June 2020.

The assets and liabilities of Digital Culture and Creative Company Limited as at 31 December 2019 are as follows:

	HK$'000
Property, plant and equipment	4,639
Right-of-use assets	3,462
Inventories	76
Accounts and other receivables	574
Bank balances and cash	96
Total assets of disposal group classified as held for sale	8,847
Accounts and other payables	824
Lease liabilities	3,486
Total liabilities of disposal group classified as held for sale	4,310

14. SHARE CAPITAL OF THE COMPANY

Ordinary shares of HK$0.04 each	Notes	Number of shares '000	Share Capital HK$'000
Authorised			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020, ordinary shares		5,000,000	200,000
Issued and fully paid			
At 1 January 2019		1,940,176	77,607
Issue of shares – under subscription	*(i)*	80,000	3,200
At 31 December 2019 and at 1 January 2020		2,020,176	80,807
Issue of shares – under subscription	*(ii)*	300,000	12,000
Cancellation of shares	*(iii)*	(1,440)	(58)
At 31 December 2020		2,318,736	92,749

Notes:

(i) On 4 September 2019, the Company issued 80,000,000 shares at HK$0.128 to an independent third party under share subscription.

(ii) On 28 September 2020, the Company issued 300,000,000 shares at HK$0.046 to three independent third parties under share subscription.

(iii) During the year ended 31 December 2019, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of shares of HK$0.01 each	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid HK$'000
January 2019	250,000	0.171	0.168	42
May 2019	200,000	0.141	0.137	28
June 2019	290,000	0.140	0.130	40
July 2019	350,000	0.138	0.080	39
September 2019	60,000	0.119	0.114	7
	1,150,000			156

During the year ended 31 December 2019, 1,150,000 ordinary shares with amount HK$156,000 were repurchased and all the shares have been cancelled on 31 December 2020.

During the year ended 31 December 2018, 290,000 ordinary shares with amounts HK$50,000 were repurchased and all the shares have been cancelled on 31 December 2020.

According to the Dream World Agreement, as the Project has not completed on 31 December 2019, the Group has the option for the return of the 643,750,000 consideration shares and 219,500,000 converted shares from the Vendors. As at 31 December 2019, the directors of the Company likely to process the option. So the total 380,437,500 ordinary shares will return to the Company.

15. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2020

In December 2019, a subsidiary of the Group entered into an agreement with an independent third party to dispose of 100% equity interest in a subsidiary, namely Digital Culture and Creative Company Limited ("Digital Culture"), for a cash consideration of US$1.

Digital Culture is principally engaged in training, nurturing and managing eSports teams and eSports. Directors concluded that the assets and liabilities of Digital Culture should be classified as held for sale as at 31 December 2019 as it believes that it is highly probable that the disposal will be completed within twelve months from the date when Digital Culture was classified as disposal group classified as held for sale. The disposal was completed on 12 June 2020.

The cash flow and the net assets of disposed subsidiary at the date of disposal were as follows:

	12 June 2020 Digital Culture HK$'000
Property, plant and equipment	**4,022**
Right-of-use assets	**2,867**
Goodwill	**470**
Accounts and other receivables	**1,209**
Bank balances and cash	**108**
Accounts and other payables	**(2,555)**
Lease liabilities	**(2,898)**
Net asset disposed of	**3,223**
Exchange adjustment	**548**
Less: consideration	**–**
Loss on disposal of subsidiaries	**(3,771)**
Cash consideration received	**–**
Bank balances and cash disposed of	**(108)**
Net cash outflow arising on disposal	**(108)**

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Digital Culture (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 149, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide the basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

(a) Impairment assessment of Intangible Assets, Deposits and Prepayments

As at 31 December 2020, the Group has (i) intangible assets for an exclusive operating right of theme park and broadways musical license with carrying value of approximately HK$90,045,000 and HK$42,201,000 respectively; (ii) deposit for film production of approximately HK$105,773,000; (iii) prepayments for musical performances contract of approximately HK$50,000,000; and (iv) deferred tax liability of HK$22,512,000 related to operating right of theme park, all of which were belongs to the Group's theme park segment ("Theme Park Assets") that relates to the exclusive operating right ("Operating Right") of the film-based cultural theme park business and tourism focused projects in Kunshan, the PRC (the "Theme Park").

In prior years, Dream World Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries entered into a cooperation agreement with Wang Shang Shi Jie (Beijing) Digital Movie Culture Development Limited (「網尚世界(北京)數字電影文化發展有限公司」) and its subsidiaries (the "Project Owner") (the "Cooperation Agreement"), pursuant to which the Company obtained the Operating right of the Theme Park for 40 years. Details of the Cooperation Agreement were set out in the Company's circular dated 28 October 2015.

According to the Cooperation Agreement, the ownership of all immoveable assets connected to the Theme Park, with all costs and expenses for the construction, development, and maintenance before completing the Theme Park, shall be vested to the Project Owner. Accordingly, the timing of commencing the Theme Park business was depends on the completion of the Theme Park.

As at 31 December 2020, the development of Theme Park was still in progress and the Company was unable to obtain a viable completion date of the Theme Park from the Project Owner.

For the purpose of impairment assessment under Hong Kong Accounting Standard 36 "Impairment of Assets", the directors estimate the recoverable amounts of the Theme Park Assets by using the income approach, which involves the preparation of a cash flow projection ("Cash Flow Projection") using significant management assumptions and judgement. Based on the impairment assessment result, the directors have determined that no impairment provision is required for the Theme Park Assets as the recoverable amounts of the Theme Park Assets are higher than its carrying amount.

However, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the basis for which the Cash Flow Projection was prepared and the related data to which specific assumptions were applied, including but not limited to the timing of cash flow that depends on the completion of the Theme Park. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the carrying amount of the Theme Park Assets as at 31 December 2020 were free from material misstatement.

Any adjustment found to be necessary to the carrying amount of the Theme Park Assets would have significant effect on the Group's net assets as at 31 December 2020 and the results for the year then ended and the related note disclosures to the consolidated financial statements.

(b) Multiple uncertainties relating to going concern

On 7 May 2020, the Company received a writ of summons with statement of claim dated 21 April 2020 (the "Claim Documents") issued in the Court of First Instance of the High Court of Hong Kong on 7 May 2020 by the solicitors acting for Hangzhou Liaison Interactive Information Technology Co., Ltd as the plaintiff (the "Plaintiff") against the Company as defendant. Based on the Claim Documents, the Plaintiff is seeking various reliefs against the Company for the restitution of benefit under a subscription agreement dated 8 February 2017 in relating to convertible bonds in aggregate of HK$412,500,000 issued by the Company during the year ended 31 December 2017 ("Subscription Agreement") in the sum of (i) HK$372,843,493 on the ground of misrepresentation; or alternatively (ii) HK$437,300,856 as a result of breach of the Subscription Agreement, the bond instrument (the "Instrument") dated 19 June 2017 and the terms and condition of the convertible bonds contained in the Instrument; or alternatively (iii) HK$105,718,493 under certain clause of a supplement deed dated 16 May 2019 and related interest ("Allegations").

Up to the date of this announcement, the directors are in the process of mediation to reach a settlement with the Plaintiff. In the opinion of the directors, the Company has valid ground to settle the Allegations.

However, we were unable to assess the impact and the outcome of the defense of the Claim Documents which will have significant impact on the consolidated financial position of the Company as at 31 December 2020 and the results for the year then ended. Should the Company fail to defense the Allegations, it might not be able to continue to operate as a going concern.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2020, the Company recorded revenue of approximately HK$56,358,000 (2019: HK$181,367,000) and a loss before taxation of approximately HK$370,415,000 (2019: loss before taxation of HK$441,257,000).

The decrease in revenue is primarily attributable to poor market sentiment and economic contraction caused by the COVID-19 pandemic during 2020.

SPORTS SEGMENT

The sports segment includes the sale of athlete's agency agreements, licensing and sale of sports content and marketing and promotional activities for professional athletes which are operated by Nova Dragon International Limited ("Nova Dragon") and Socle Limited ("Socle").

During the year ended 31 December 2020, the sports segment recorded revenue of approximately HK$5,596,000 (2019: HK$32,694,000) and a loss before taxation and unallocated income and expenses of approximately HK$43,186,000 (2019: loss before taxation and unallocated income and expenses of HK$53,403,000). The decrease in revenue is primarily attributable to general economic slowdown in the PRC caused by the COVID-19 pandemic. The sports segment also recorded impairment of goodwill of approximately HK$37,623,000. (2019: HK$52,229,000).

Nova Dragon is principally engaged in assisting professional athletes with marketing and promotional activities worldwide. Socle is principally engaged in the business of licensing and sale of sports content and is one of the foremost providers of sports and entertainment content in the PRC.

ENTERTAINMENT SEGMENT

The entertainment segment includes the licensing and sale of music and entertainment content which is primarily operated by Far Glory Limited ("Far Glory") and Orient Digital Entertainment Limited ("ODE"), respectively. The entertainment segment also includes the planning and design services for concerts, management and operations of the Group's E-sports teams and management of the Group's webcast celebrities.

During the year ended 31 December 2020, the entertainment segment recorded revenue of approximately HK$46,757,000 (2019: HK$137,562,000) and a loss before taxation and unallocated income and expenses of approximately HK$283,880,000 (2019: HK$190,678,000). The decrease in revenue was primarily due to poor market sentiment and economic contraction caused by the COVID-19 pandemic. The entertainment segment also recorded impairment of goodwill of approximately HK$86,891,000 (2019: HK$138,852,000).

ODE and its subsidiaries are principally engaged in the business of licensing and sale of entertainment content and products such as promotion, sales and distribution of movie and television licensed content worldwide and the management of webcast celebrities. ODE also invests in the production of movies, TV shows and musicals.

Far Glory and its subsidiaries are principally engaged in the business of licensing and sale of music content as well as the planning and design of music events.

The Group's E-sports business is primarily operated by Summer Eagle Limited ("Summer Eagle") and its subsidiaries ("Summer Eagle Group"). Summer Eagle is principally engaged in the management and operations of professional E-sports teams.

THEME PARK SEGMENT

The theme park segment includes the film-based cultural theme park business and tourism focused projects which is operated by the Dream World Holdings Limited ("Dream World") and its subsidiaries (collectively, the "Dream World Group").

During the year ended 31 December 2020, the theme park segment recorded a revenue of approximately HK$4,005,000 (2019: HK$11,111,000) and loss before taxation and unallocated income and expenses of approximately HK$6,748,000 (2019: HK$127,908,000). The decrease in revenue was primarily attributable to the decrease in consultancy revenue. The decrease in loss before taxation and unallocated income and expenses from 2019 to 2020 was primarily due to decreased impairment of goodwill.

Dream World Group is principally engaged in the management and operations of film-based cultural theme parks and tourism focused projects. Dream World is currently operating the Huaqiao Dream World Movie and Cultural Theme Parks located in the Kunshan Huaqiao Economic Development Zone in the junction of Shanghai and Suzhou of the PRC.

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group recorded revenue of approximately HK$56,358,000, representing a decrease of approximately 68.9% from approximately HK$181,367,000 for the previous financial year. Cost of services rendered for 2020 was approximately HK$32,082,000 which represented a decrease of approximately 75.3% from approximately HK$129,758,000 in 2019. Gross profit margin in 2020 was approximately 43.1% which was higher than the gross profit margin of approximately 28.5% for the previous financial year.

During the year ended 31 December 2020, administrative expenses incurred by the Group were approximately HK$369,855,000 (2019: HK$770,906,000). The decrease in administrative expenses was primarily due to the decrease in impairment of goodwill, impairment of intangible assets and provision for doubtful debt on accounts receivable.

During the year ended 31 December 2020, the Group recorded approximately HK$2,245,000 (2019: HK$2,823,000) in selling and distribution costs. The decrease in selling and distribution costs was primarily due to the decrease in marketing expenses in 2020.

During the year ended 31 December 2020, the Group recorded approximately HK$33,546,000 (2019: HK$34,129,000) in finance costs.

As a result of the aforesaid figures, the Group reported a loss attributable to owners of the Company for the year ended 31 December 2020 of approximately HK$360,414,000 (2019: loss attributable to equity holders of the Company of HK$419,868,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had current assets of approximately HK$98,262,000 (2019: HK$204,163,000) and current liabilities of approximately HK$72,909,000 (2019: HK$78,739,000). The current assets were comprised mainly of bank balances and cash of approximately HK$26,023,000 (2019: HK$32,568,000), inventories of approximately HK$24,509,000 (2019: HK$17,022,000) and accounts and other receivables of approximately HK$46,450,000 (2019: HK$86,442,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK$28,593,000 (2019: HK$52,933,000) and interest-bearing borrowings of approximately HK$25,000,000. As at 31 December 2020, the Group had a current ratio of approximately 1.35 as compared to that of approximately of 2.59 as at 31 December 2019.

Most of the business transactions, assets and liabilities of the Group are denominated in Hong Kong Dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong Dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2020, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

FUND RAISING ACTIVITIES

THE CONVERTIBLE BONDS

On 19 June 2017, the Company issued convertible bonds (the "Convertible Bonds") with the aggregate principal amount of HK$412,500,000 to Hangzhou Liaison Interactive Information Technology Co., Limited (杭州聯絡互動信息科技股份有限公司, the "Subscriber"). The holders of the Convertible Bonds will be able to convert the outstanding principal amount of each of the Convertible Bonds into ordinary shares of the Company at a conversion price of HK$0.55 per conversion share at any time following the date of issue until the maturity date (18 June 2022). The Convertible Bonds bear interest of 5.5 per cent per annum, payable annually. Please refer to the announcements of the Company dated 9 February 2017 and 19 June 2017 and the circular of the Company dated 13 March 2017 in relation to the issue of the Convertible Bonds for more details.

The Directors considered that the issue of the Convertible Bonds (i) represented a good opportunity for the Company to raise funds from the issue of Convertible Bonds to strengthen its financial position as well as to provide immediate funding to the Group for its business development without resulting in immediate dilution effect on the shareholding interests of the existing shareholders of the Company; and (ii) would enable the Company to build a strategic partnership with the Subscriber, a leading player in the electronic gaming industry in the PRC, and in collaboration with the Subscriber, to develop the "Mobile E-sports" market and the related peripherals market by combining mobile broadcasting and electronic gaming which may in turn diversify and enhance the E-sports and webcast celebrity businesses in the entertainment segment of the Group despite that the Subscriber will not appoint a Director and is not eligible to nominate any candidate to the Board.

As at 31 December 2020, the net proceeds (after deduction of the relevant expenses) from the issue of the Convertible Bonds amounted to approximately HK$411.7 million.

The Directors are of the view that the Company can recognise considerable gains on the sale of its E-sports businesses as evidenced by the consideration of HK$70 million for the sale of Star Summer Company Limited ("Star Summer") and its subsidiaries ("Star Summer Group") during the year ended 31 December 2019. As such, the Directors resolved to assign more resources to the development of its E-sports and webcast celebrity operations. Details of which are as follows:

		Planned use of proceeds stated in the circular dated 13 March 2017	Revised allocation of the net proceeds	Unutilised proceeds as at 31 December 2019	Actual use of proceeds from 1 January 2020 to 31 December 2020	Unutilised proceeds as at 31 December 2020
		HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
(i)	Expanding E-sports and webcast celebrity operations, including the investment in the newly acquired Shanghai Xin Ke Culture Media Company Limited and Jieyi Wenchuang Company Limited, and the joint venture investment in Yujia Yule Media Company Limited and Kunshan Jieyi Culture Communication Company Limited	180.0	149.0	–	–	–
(ii)	Promotion and marketing in relation to the Group's athlete management business	20.0	20.0	–	–	–
(iii)	Development of the entertainment segment through investment in movies and television shows	100.0	134.6	–	–	–
(iv)	Acquisition of sports licenses	50.0	52.8	–	–	–
(v)	General working capital of the Group	61.7	55.3	–	–	–
		411.7	411.7	–	–	–

On 7 May 2020, the Company received a writ of summons with statement of claim dated 21 April 2020 (the "Claim Documents") issued in the Court of First Instance of the High Court of Hong Kong on 7 May 2020 by the solicitors acting for Hangzhou Liaison Interactive Information Technology Co., Ltd as the plaintiff (the "Plaintiff") against the Company as defendant. Based on the Claim Documents, the Plaintiff is seeking various reliefs against the Company for the restitution of benefit under a subscription agreement dated 8 February 2017 relating to convertible bonds in aggregate of HK$412,500,000 issued by the Company during the year ended 31 December 2017 ("Subscription Agreement") in the sum of (i) HK$372,843,493 on the ground of misrepresentation; or alternatively (ii) HK$437,300,856 as a result of breach of the Subscription Agreement, the bond instrument (the "Instrument") dated 19 June 2017 and the terms and condition of the convertible bonds contained in the Instrument; or alternatively (iii) HK$105,718,493 under certain clause of a supplement deed dated 16 May 2019 and related interest. For details of the case, please refer to the Company's announcements dated 5 June, 22 April 2020 and 15 October 2020.

The Company filed an acknowledgment of service of writ of summons indicating that the Company intends to contest the proceedings and had filed the defence on 2 July 2020.

THE SUBSCRIPTIONS

Reference is made to the announcements of the Company dated 31 July 2020 and 28 September 2020. The Company entered into subscription agreements with Wand Finance Limited ("Subscriber I"), Metroway Century Holdings Limited ("Subscriber II") and Bravo Crystal Limited ("Subscriber III"), (collectively, the "Subscribers"), pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for the subscription shares comprising an aggregate of 300,000,000 new shares ("Subscription Shares") at the subscription price of HK$0.046 per subscription share (the "Subscription Price") (the "Subscriptions").

The conditions precedent set out in the subscription agreements entered into between the Company and Subscribers have been fulfilled and the completion in respect of the subscription agreements took place on 28 September 2020 (the "Completion"). An aggregate of 300,000,000 Subscription Shares have been allotted and issued by the Company to the Subscribers at the Subscription Price. Following the Completion, the net proceeds raised from the Subscriptions pursuant to the subscription agreements are approximately HK$13.5 million.

		Planned use of proceeds stated in the announcement dated 31 July 2020	Actual use of proceeds up to 31 December 2020	Unutilised proceeds as at 31 December 2020
		HK$'million	HK$'million	HK$'million
(i)	General working capital	13.5	13.5	–
		13.5	13.5	–

Reference is made to the announcement of 19 February 2021. The Company entered into subscription agreements with Yuzhu Trading (HK) Company Limited ("Subscriber I"), Kartic Limited ("Subscriber II"), Million Rise Investment Holdings Inc. ("Subscriber III") and AID Partners Advisor Limited ("Subscriber IV"), (collectively, the "Subscribers"), pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for the subscription shares comprising an aggregate of 400,000,000 new shares ("Subscription Shares") at the subscription price of HK$0.1 per Subscription Share (the "Subscription Price") (the "Subscriptions").

The conditions precedent set out in the subscription agreements entered into between the Company and the Subscribers have been fulfilled and the completion in respect of the subscription agreements took place on 26 March 2021 (the "Completion"). An aggregate of 400,000,000 Subscription Shares have been allotted and issued by the Company to the Subscribers at the Subscription Price. Following the Completion, the net proceeds raised from the Subscriptions pursuant to the subscription agreements are approximately HK$39.74 million. The Company intends to use the net proceeds from the Subscriptions for development of cloud based gaming and general working capital of the Group.

GEARING RATIO

The gearing ratio (which is computed by consolidated borrowings divided by consolidated total equity) was not applicable (31 December 2019: 0%). As at 31 December 2020, total borrowings of the Group amounted to HK$25,000,000 (31 December 2019: HK$Nil).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(i) Disposal of a subsidiary

In December 2019, a subsidiary of the Company entered into an agreement with an independent third party to dispose 100% equity interest in a subsidiary, namely Digital Culture and Creative Company Limited for a cash consideration of US$1. Such disposal has been completed on 12 June 2020.

(ii) Deemed disposal of a subsidiary

On 11 February 2021. Summer Eagle, a wholly-owned subsidiary of the Company, entered into an agreement with Adelle International Ltd (the "Investor"), pursuant to which the Investor has agreed to subscribe for and Summer Eagle has agreed to allot and issue 67 shares at a consideration of US$4,700,000 (equivalent to approximately HK$36,660,000) (the "Subscription"). The Directors are of the view that the Subscription provides additional working capital for Summer Eagle Group to develop its E-sports business and explore new investment opportunities in the E-sports field, and the Group would benefit from the future growth and development of Summer Eagle Group. The proceeds from the Subscription will be used as a general working capital of Summer Eagle to develop its E-sports business. Immediately upon the Completion, the Company's interest in Summer Eagle will be diluted from 100.0% to approximately 59.88%, which constitutes a deemed disposal of its interests in Summer Eagle by the Company. Summer Eagle will become a non-wholly owned subsidiary of the Company. Please refer to the announcement of the Company dated 11 February 2021 for more details. As of the date of this announcement, the deemed disposal of equity interests in Summer Eagle has not yet completed.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2020 and thereafter to the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND EXPECTED SOURCES OF FUNDING

Saved as disclosed herein, the Board does not have any plan for material investments or capital assets.

FOREIGN EXCHANGE RISK

The Group's exposure to foreign currency risk mainly arises from the fluctuation of RMB and USD against the functional currencies of the Group. Most of the purchases and sales are denominated and settled in foreign currencies, mainly HKD, RMB and USD. As RMB and USD have been volatile during the years ended 31 December 2019 and 2020, the financial performance of the Company may be affected by the fluctuation of the foreign exchange rate in the future. The Group does not have a foreign exchange hedging policy but management will continue to closely monitor exchange rate fluctuations and will take appropriate measures to keep foreign exchange risk exposure to a minimum. The Group does not use any financial instruments for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

On 11 February 2021, Summer Eagle Limited (a wholly-owned subsidiary of the Company) and the investor, entered into the subscription agreement, pursuant to which the investor has agreed to subscribe for and Summer Eagle Limited has agreed to allot and issue 67 shares at a consideration of US$4,700,000 (equivalent to approximately HK$36,660,000). Upon the Completion, the Company's interest in Summer Eagle Limited will be diluted from 100.0% to approximately 59.88%, which constitutes a deemed disposal of interest in Summer Eagle Limited by the Company. For detail, please refer to the announcement dated 11 February 2021.

On 22 February 2021, the Company proposed share consolidation of its existing shares with a par value of HK$0.04 each into consolidated shares which shall be subject to, among others, approval by the shareholders of the Company. For detail, please refer to the announcement dated 22 February 2021.

On 26 March 2021, the Company issued 400,000,000 shares at HK$0.1 to four independent third parties under share subscription. For detail, please refer to the announcements dated 19 February 2021 and 26 March 2021.

Save as disclosed above, there has been no material subsequent events from 31 December 2020 up to the date of this announcement.

EMPLOYEE INFORMATION

As at 31 December 2020, the Group had 67 (2019: 86) employees. Employee costs for 2020, excluding Directors' emoluments, amounted to approximately HK$16,897,000 (2019: HK$24,991,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the positions offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopts an employee share option scheme to provide eligible employees performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS
BEIJING ORIENT LIHENG TELEVISION MEDIA CO., LTD. (北京東方力恒影視傳媒有限公司)

(a) Background information

On 10 November 2014, Sky Asia Investments Limited ("Sky Asia"), an indirectly wholly owned subsidiary of the Company, entered into an undertaking agreement with two independent third parties, namely Zhang Chong (張沖) and Wang Geng (王賡) (the "Undertaking Agreement"). These two independent third parties undertook to procure 北京東方力恒影視傳媒有限公司 (Beijing Orient Liheng Television Media Co., Ltd., "Liheng") and themselves enter into a set of contractual agreements with 北京聯易匯眾科技有限公司 (Beijing Lianyi Huizhong Technology Co., Ltd., "Lianyi Huizhong") (collectively "Contractual Arrangements"). Under the Contractual Arrangements, the Group would be able to exercise 100% control over Liheng in substance notwithstanding the absence of legal ownership.

On 18 February 2015, the Undertaking Agreement was completed and Liheng has become a subsidiary of the Group since then.

(b) Particulars of major parties involved

Sky Asia is a wholly owned subsidiary of the Company and is incorporated in Hong Kong with limited liability. The principal business of Sky Asia is investment holding.

Lianyi Huizhong is a wholly foreign-owned enterprise in the PRC with limited liability and the entire equity of which is directly wholly owned by Sky Asia and indirectly wholly owned by the Company. Lianyi Huizhong principally engages in purchasing licensed musical contents and selling the contents on mobile platforms.

Liheng is a company incorporated with limited liability in the PRC and is owned as to 60% by Zhang Chong (張沖) and 40% by Wang Geng (王賡). Liheng is engaged in the radio and television program production. The principal business of Liheng is the production of television drama series or films and trading of intellectual property rights in relation to entertainment contents. Liheng possesses a valid radio and television program production license.

Zhang Chong (張沖) is the registered shareholder of Liheng and owns 60% of the equity interest in Liheng.

Wang Geng (王賡) is the registered shareholder of Liheng and owns 40% of the equity interest in Liheng.

A summary of the major terms of the Contractual Arrangements has been published on the website of the Company.

(c) Financial information of Liheng

During the year ended 31 December 2020, the revenue and net loss after tax of Liheng was approximately HK$Nil and HK$1,466,000 respectively. The net loss after tax of Liheng was primarily attributed to poor market sentiment and cautious spending in the entertainment industry due to tightened tax regulation. As at 31 December 2020, the total assets and net liabilities were approximately HK$15,524,000 and HK$7,388,000 respectively.

During the year ended 31 December 2019, the revenue and loss after tax of Liheng was approximately HK$Nil and HK$1,039,000 respectively. The net loss after tax of Liheng was primarily attributed to poor market sentiment and cautious spending in the entertainment industry due to tightened tax regulation. As at 31 December 2019, the total assets and net assets were approximately HK$24,050,000 and HK$2,600,000 respectively.

(d) Reasons for using the Contractual Arrangements

According to the Deheng Shanghai Law Office ("PRC legal adviser"), under the regulations of the Catalogue for the Guidance of Foreign Investment Industries, the production of television programs is a restricted type of industry for foreign investments. The foreign investors are not allowed to invest in or hold any shares of companies producing and operating television programs in the PRC. However foreign investors are allowed to participate in the television programs production business in the form of sino-foreign co-operative enterprise.

Since Liheng engages in television programs production business, it falls within the scopes of restricted industries. As foreign investors are not allowed to directly invest in television programs production business, television programs production business operated by Liheng cannot be conducted by a company whose equity interest is owned as to more than 49% by foreign investors pursuant to the applicable PRC laws and regulations. Therefore, Lianyi Huizhong entered into the Contractual Arrangements so as to enable the Company to manage and control the businesses of Liheng.

Under the Contractual Arrangements, Lianyi Huizhong provides professional advices to Liheng in relation to the types of television drama series or films to be produced. Lianyi Huizhong is responsible for the casting of those television drama series and films and ensures that the artists of Liheng have the privileges to play the appropriate roles.

(e) Risks relating to the Contractual Arrangements

(1) *Regulatory licenses and permits*

The film and television program production and operation businesses in the PRC require Liheng to obtain licenses and permits from the relevant authorities. For Liheng's business, it is required to obtain relevant regulatory licenses and permits in addition to its business license. The relevant regulatory licenses and permits are generally renewable upon their expiration in accordance with the relevant regulatory provisions. Nevertheless, there is no assurance that such relevant regulatory licenses and permits could be renewed upon their expiration or would be renewed with the same scope. Should Liheng fail to obtain or renew these licenses or permits or should any of them be revoked or suspended, Liheng's business and financial performance would be adversely affected.

(2) *Media law developments in the PRC*

Liheng's businesses are mainly conducted in the PRC. Accordingly, Liheng's results of operation, financial conditions and prospects are subject to a significant degree to the media law developments in the PRC. The PRC economy differs from the economies of most developed countries in many aspects, including:

- political structure;
- degree of government involvement;
- degree of development;
- level and control of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

Liheng is uncertain whether these changes in the economic, political and social conditions, laws, regulations and policies of the PRC will have any adverse effect on its current or future business, financial conditions or results of operations.

(3) *PRC corporate governance*

The PRC legal adviser is of the view that each of the Contractual Arrangements is lawful, valid and enforceable, and binding on the signing parties. The Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" under Article 52 of the PRC Contract Law. However, there can be no assurance that the PRC government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of the PRC legal adviser stated above.

(4) *The Contractual Arrangements may not be as effective as direct ownership providing control over Liheng*

The Group relies on the Contractual Arrangements with Liheng to operate the television programs production businesses in the PRC. The Contractual Arrangements may not be as effective in providing the Group with control over Liheng as direct ownership in rare circumstances. If the Group had direct ownership of Liheng, the Group would be able to deal with the equity interests in and the assets of Liheng under any winding up situation.

(5) The shareholders of Liheng may have potential conflict of interests with the Group

The Group's control over Liheng is based on the Contractual Arrangements. Therefore, conflict of interests of Liheng's shareholders will adversely affect the interests of the Group.

(6) The Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

The Group could face material adverse tax consequence if the PRC tax authorities determine that the Contractual Arrangements were not entered into based on arm's length conditions. If the PRC tax authorities determine that the Contractual Arrangements were not entered on an arm's length basis, they may adjust the relevant income and expenses for PRC tax purposes. A transfer pricing adjustment could adversely affect the Group's financial position by increasing the relevant tax liability and penalties. As a result, any transfer pricing adjustment would have a material adverse effect on the Group's financial position and results of operations.

In order to mitigate the risks of the Contractual Arrangements, the Group has since its acquisition of this business in February 2015 implemented the following measures to ensure the sound and effective operation of the Contractual Arrangements:

– suitable management has been assigned to Liheng to report regularly to the Group in relation to major issues arising from implementation of the Contractual Arrangements;

– suitable reporting system in line with the Group's financial reporting practice in the PRC has also been in place to ensure that the Group would have full access and control over the books and records of Liheng and to obtain periodic financial information to ensure proper financial record are kept; and

– the Group has worked closely and will continue to work closely with the PRC legal advisor and the management of Liheng on the update of rules and regulations of the PRC to monitor the continue compliance of the rules and regulations by Liheng as to its conduct of business and Contractual Arrangements.

(f) Material change in relation to the Contractual Arrangements

As at the date of this announcement, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

(g) Unwinding the Contractual Arrangements

The Directors confirm that the Company will unwind the Contractual Arrangements as soon as the laws allows the business of Liheng to be operated without the Contractual Arrangements.

However, as at the date of this announcement, there is no unwinding of any of the Contractual Arrangements entered into between the Company, Zhang Chong (張沖) and Wang Geng (王賡) nor any change to the laws regulating the business of Liheng that led to the adoption of the Contractual Arrangements be removed.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code Provision") as set out in Appendix 15 of the GEM Listing rules. In the opinion of the Directors, the Company has complied with the Code Provision throughout the year ended 31 December 2020, except for the following deviations: Code Provision A.6.7 stipulates that independent non-executive Directors and other non-executive Directors should attend general meeting and have a fair understanding of the shareholders' opinion. Code Provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and also invite the chairmen of the Audit Committee, the Remuneration Committee, the Nomination Committee and any other committee to the meeting.

Save as Mr. Kwok Chi Sun, Vincent, the other two independent non-executive Directors could not attend the annual general meeting held on 14 August 2020 due to extraordinary business activities and unexpected events.

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

During the year ended 31 December 2020, the Company cancelled 1,440,000 shares of its own ordinary shares. Save as those disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interests in any of the Company's listed securities.

SCOPE OF WORK OF ELITE PARTNERS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Elite Partners CPA Limited 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 Elite Partners CPA Limited on the preliminary announcement.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements for the year ended 31 December 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of HKEXnews (www.hkexnews.hk) as well as the website of the Company (http://www.cdculture.com). The Company's 2020 annual report will be dispatched to shareholders and will be published on the aforementioned websites on 31 March 2021.

SUSPENSION OF TRADING IN SHARES

Under Rule 17.49B of the GEM Listing Rules, the Exchange will normally require suspension of trading in an issuer's securities if it publishes a preliminary results announcement for a financial year as required under Rules 18.49 and 18.50 and the auditor has issued, or has indicated that it will issue, a disclaimer of opinion or an adverse opinion on the issuer's financial statements (unless relating to the going concern issue only). The suspension will normally remain in force until the issuer has addressed the issues giving rise to the disclaimer or adverse opinion, provided comfort that a disclaimer or adverse opinion in respect of such issues would no longer be required, and disclosed sufficient information to enable investors to make an informed assessment of its financial positions.

As disclosed on page 20 to 21 of this results announcement, the auditors of the Company do not express an opinion on the consolidated financial statements of the Group (the "Disclaimer of Opinion") regarding (a) multiple uncertainties relating to going concern; and (b) impairment assessment of Intangible Assets, Deposits and Prepayments in the "Basis for Disclaimer of Opinion" section (the "Basis for Disclaimer of Opinion"). In light of the Disclaimer of Opinion and the Basis for Disclaimer of Opinion, the Stock Exchange has requested for trading suspension of the shares of the Company with effect from 9:00 a.m. on 1 April 2021.

By order of the Board
China Digital Culture (Group) Limited
Hsu Tung Chi
Chairman

Hong Kong, 31 March 2021

As at the date of this announcement, the executive Directors are Mr. Hsu Tung Chi, Ms. Zhang Jing and Mr. Ng Fung Tai. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on GEM website on the "Latest Company Information" page for at least 7 days from the date of its posting and on the website of the Company at http://www.cdculture.com.