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## **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)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2020**

Reference is made to the annual report of China Digital Culture (Group) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the financial year ended 31 December 2020 (the “**FY2020 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the FY2020 Annual Report.

In addition to the information provided in the FY2020 Annual Report, the Board would like to provide further information to (i) the Corporate Governance Report therein in relation to the disclaimer of opinion (the “**Audit Qualification**”) issued by the auditor of the Company, namely Elite Partners CPA Limited (the “**Auditors**”), in relation to the consolidated financial statements of the Group for the year ended 31 December 2020; (ii) impairment on intangible assets and goodwill in relation to the Sports segment and the Entertainment segment; and (iii) clarification on profit guarantee relating to Vector Vision Group.

## **DETAILS OF THE AUDIT QUALIFICATION AND MANAGEMENT’S POSITION AND ASSESSMENT ON THE AUDIT QUALIFICATION**

### **1. Disclaimer of opinion on impairment assessment of the Theme Park Assets**

Due to the COVID-19 pandemic, construction progress of the Theme Park was substantially delayed and the construction of the Theme Park was still in progress. The Company was unable to obtain a viable completion date of the Theme Park from the Project Owner. For the purpose of annual results for the financial year ended 31 December 2020, the directors of the Company (the “**Directors**”) estimated the recoverable amounts of the values of the intangible assets, deposits and prepayments relating to the Theme Park’s operations (the “**Theme Park Assets**”) by using the income approach which involves the preparation of a cash flow projection (the “**Cash Flow Projection**”). In preparing the Cash Flow Projection, the Board assumed that the construction of the Theme Park has been resumed to normal and the completion date would be foreseeable. Based on such assumptions and 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, the Auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves 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. As such, due to uncertain completion date of the Theme Park, the Auditors could not assess the values of Theme Park Assets.

In view of the latest construction progress of the Theme Park, the management of the Company ( the “**Management**”) was still unable to justify its expected completion date. With a view to removing the Audit Qualification and fulfilling the resumption guidance as soon as possible, the Company has an intention to dispose the Theme Park Assets by the end of 2021 and is currently negotiating with potential strategic investors in respect of a possible disposal of the Theme Park Assets.

## 2. 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 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 (the “**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 (the “**Allegations**”).

The litigation in relation to the Claim Documents (the “**Litigation**”) with the Plaintiff has not been settled yet. The Auditors cannot obtain sufficient audit evidence that the Company can successfully defend the Allegations in the legal point of view; if not, quantify the relevant financial impact arising from the Allegations.

Under such circumstance, the Company and the Plaintiff have engaged a mediator to proceed with mediation at the end of April 2021 in order to reach a settlement regarding the Litigation. As at the date of this announcement, the settlement is still under negotiation with the Plaintiff through the mediation process.

The Directors are also taking additional measures to improve the liquidity and solvency position of the Group, including but not limited to speeding up the collection of receivables process and tightening the operating cash outflows through cutting costs and capital expenditures.

### ***Audit Committee's view on the Audit Qualification***

The Audit Committee has reviewed the Management's position as well as the action plan of the Group to address the Audit Qualification. The Audit Committee is in agreement with the Management with respect to the Audit Qualification and the Group's ability to continue as a going concern, and in particular the actions or measures to be implemented by the Management or the Group. There is no disagreement by the Audit Committee with the Management's position on the Audit Qualification. The Audit Committee has also discussed with the Management and has reviewed the current progress of the action plan to address the Audit Qualification. The Audit Committee is also of the view that the Management should continue its efforts in implementing the actions and measures set out in the action plan with the intention of mitigating the Group's liquidity pressure and removing the Audit Qualification.

### **MULTIPLE UNCERTAINTIES RELATING TO GOING CONCERN**

Taking into account the Audit Qualification, it indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The Group's ability to continue as a going concern will depend upon the actual outcome of the proposed actions mentioned above. Assuming that the Company can successfully implement the aforesaid measures, the Company considers it would address the going concern issues. For the avoidance of doubt, in accordance with the applicable Hong Kong Standards on Auditing, the Auditors needs to obtain sufficient appropriate audit evidence and to consider, based on the audit evidence to be obtained, whether material uncertainty exists regarding the Group's ability to continue as going concern. Since the Management's assessment of the Group's ability to continue as a going concern for the purposes of preparing the Group's consolidated financial statements for the year ending 31 December 2021 has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, the Auditors is unable to ascertain at this moment whether the Audit Qualification can be removed in the next financial year purely based on the Company's action plan above.

## **DETAILS OF THE IMPAIRMENT OF INTANGIBLE ASSETS AND GOODWILL IN RELATION TO THE SPORTS SEGMENT AND THE ENTERTAINMENT SEGMENT**

The Group assess the intangible assets and goodwill in relation to the Sports segment and the Entertainment segment on yearly basis. Pursuant to para. 9 of HKAS 36 “Impairment of Assets”, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Accordingly, it is the Group’s principal accounting policy, as disclosed in the FY2020 Annual Report, under the heading of “Principal Accounting Policies” in note 3 to the consolidated financial statements, that at the end of each reporting period, the Group assess whether there is any indication that its assets may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying value of the asset is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

The Group, on annual basis, appointed independent external valuer assess the recoverable amount of the asset, including the intangible asset and goodwill associated to the Sports segment and the Entertainment segment. Graval Consulting Limited has been appointed by the Company to conduct impairment testing analysis and assess the recoverable amount of the Sports segment and the Entertainment Segment as at 31 December 2020. The valuer has adopted discount cash flow method to derive the value in use of the Sports segment and the Entertainment segment.

As disclosed in the FY2020 Annual Report, the Company recorded impairment loss on goodwill of approximately HK\$86.9 million for the Entertainment segment and HK\$37.6 million for the Sports segment respectively. The Company also recorded impairment loss on intangible assets of approximately HK\$61 million for the Entertainment segment. The reasons for the recognition of impairment loss were mainly due to:

### **(a) Sports segment**

Following the outbreak of COVID-19 pandemic, the complete shutdown of many sports events in 2020 and limitations going into 2021, the licensing business for broadcasting sports events has been negatively impacted. This resulted in reduced revenue for the Sports segment and led to the recognition of the impairment losses of the Sports segment.

**(b) Entertainment segment**

Similar to the Sports segment, following the outbreak of COVID-19 pandemic, the Entertainment segment which includes businesses such as entertainment content licensing has been negatively impacted due to the reduced attendance for movies, shows and live e-sports events. This resulted in reduced revenue for the Entertainment segment and led to the recognition of the impairment losses of the Entertainment segment.

The reason for change in key assumptions applied for the valuation disclosed in note 18 to the consolidated financial statements are summarized as below:

<b>Major inputs/ key assumptions</b>	<b>Value used</b>	<b>Reason for change</b>
Gross profit margin	2020: 0–28% (2019: 13–83%)	Gross profit margin of 2020 decreased as compared with 2019.  The estimated gross profit margin for Sports segment and Entertainment segment is referenced to the actual gross profit margin achieved in 2020. As 2020’s gross profit for Sports segment and Entertainment segment is lower than the previous estimate, the gross profit margin for value in use is also decreased.
Average growth rate	2020: 0–3% (2019: 2–12%)	Average growth rate decreased in 2020 as compared to 2019. This is primarily due to the significant economic slowdown that occurred in 2020 as a result of the COVID-19 pandemic.
Long-term growth rate	2020: 3% (2019: 2–3%)	No change.
Discount rate	2020: 15–23% (2019: 19–45%)	Change due to the cost of equity. By reference of Bloomberg of the cost of equity of same comparable companies of the two years.

## **CLARIFICATION ON PROFIT GUARANTEE IN RELATION TO VECTOR VISION GROUP**

The Company noted that there are inadvertent clerical errors set out in the FY2020 Annual Report and would like to clarify that the second paragraph of note 22(a) to consolidated financial statements as disclosed on page 113 of the FY2020 Annual Report in relation to “Derivative Financial Assets” should read as follows (with amendments underlined):

“Included in the Vector Vision Agreement, there was a profit guarantee pursuant to which the Vendor guarantees to the Group that the net profit after tax of Vector Vision Group (i) for the year ended 31 December 2017 is not less than HK\$3,000,000 for the whole financial year; (ii) for the year ending 31 December 2018 is not less than HK\$6,000,000 for the whole financial year; and (iii) for the year ending 31 December 2019 is not less than HK\$9,000,000 for the whole financial year (“**Guaranteed Profit**”). If the event that Guaranteed Profit have not been met, compensation shall be paid by the Vendor to the Group. For the year ended 31 December 2019, the actual profit of Vector Vision Group has been met with the Guaranteed Profit for not less than HK\$9,000,000 (2018: HK\$6,000,000). This fair value as at 31 December 2018 and 31 December 2019 amounting to HK\$4,485,000 and HK\$Nil respectively and fair value loss of HK\$4,485,000 being recognised for the year ended 31 December 2019.”

The above additional information does not affect other information contained in the FY2020 Annual Report and save for those disclosed above, all other information contained in the FY2020 Annual Report remains unchanged.

## **CONTINUED SUSPENSION OF TRADING**

In light of the disclaimer of opinion issued by the Auditors in the FY2020 Annual Report, at the request of the Company, trading in the shares of the Company on the Hong Kong Stock Exchange has been suspended with effect from 1 April 2021 and will remain suspended until further notice.

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

Hong Kong, 7 October 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. 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 or deceptive; and (ii) there are no other matters the omission of which would make any statement in this announcement misleading.*

*This announcement will remain on GEM website on the “Latest Listed 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>.*