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**DREAM EAST**  
梦东方

## **DREAMEAST GROUP LIMITED**

**夢東方集團有限公司**

*(Incorporated in Bermuda with limited liability and  
carrying on business in Hong Kong as “DreamEast Cultural Entertainment”)*

**(Stock Code: 593)**

## **ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **UNAUDITED CONSOLIDATED RESULTS**

For the reasons explained below under “Review of Unaudited Annual Results”, the audit process for the annual results of DreamEast Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) has not been completed. In the meantime, the board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2020 as follows:

# UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i> <b>(unaudited)</b>	2019 <i>HK\$'000</i> <b>(audited)</b>
<b>Revenue</b>			
Sales of properties	3	<b>1,470</b>	84,338
Rental income	3	<b>11,969</b>	17,441
Tourism park operations and other services	3	<b>5,514</b>	18,219
		<b>18,953</b>	119,998
Cost of sales and services		<b>(10,852)</b>	(73,843)
Gross profit		<b>8,101</b>	46,155
Other gains and losses		<b>(184,342)</b>	(48,162)
Other income		<b>16,888</b>	26,492
Share of results of joint ventures		<b>(238,433)</b>	(7,653)
Fair value changes of investment properties	9	<b>(194,149)</b>	91,594
Selling expenses		<b>(17,749)</b>	(24,592)
Administrative expenses		<b>(66,547)</b>	(108,539)
Impairment loss of property, plant and equipment		<b>(104,901)</b>	—
Impairment loss of properties under development for sales		<b>(1,374,563)</b>	—
Impairment loss on trade and other receivables		<b>(17,905)</b>	—
Gain (Loss) on disposal of subsidiaries		<b>20,989</b>	(7,642)
Gain (Loss) on extinguishment of convertible bonds		<b>183,241</b>	(1,623)
Gain on modification of bonds and convertible bond		<b>8,020</b>	—
Finance costs		<b>(116,959)</b>	(128,575)
<b>Loss before tax</b>	5	<b>(2,078,309)</b>	(162,545)
Income tax credit (expense)	6	<b>356,250</b>	(38,626)
<b>Loss for the year</b>		<b>(1,722,059)</b>	(201,171)

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i> <b>(unaudited)</b>	2019 <i>HK\$'000</i> (audited)
<b>Other comprehensive gain (loss):</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation		57,625	(11,392)
Share of other comprehensive loss of joint ventures		<u>77,168</u>	<u>(31,010)</u>
		<b>134,793</b>	(42,402)
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(35,643)</u>	<u>36,221</u>
<b>Other comprehensive income (loss) for the year</b>		<u><b>99,150</b></u>	<u>(6,181)</u>
<b>Total comprehensive loss for the year</b>		<u><b>(1,622,909)</b></u>	<u><b>(207,352)</b></u>
<b>Loss for the year attributable to:</b>			
Owners of the Company		(1,685,051)	(199,812)
Non-controlling interests		<u>(37,008)</u>	<u>(1,359)</u>
		<u><b>(1,722,059)</b></u>	<u><b>(201,171)</b></u>
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the Company		(1,593,645)	(200,584)
Non-controlling interests		<u>(29,264)</u>	<u>(6,768)</u>
		<u><b>(1,622,909)</b></u>	<u><b>(207,352)</b></u>
<b>Loss per share</b>	8		
— Basic		<u><b>(HK\$5.9023)</b></u>	<u>(HK\$0.6999)</u>
— Diluted		<u><b>(HK\$5.9023)</b></u>	<u>(HK\$0.6999)</u>

# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b> <b>(unaudited)</b>	2019 <b>HK\$'000</b> <b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>219,910</b>	286,920
Right-of-use assets		<b>57,704</b>	52,441
Investment properties	9	<b>2,609,669</b>	2,567,861
Investment in joint ventures	10	<b>1,208,886</b>	1,313,830
Other non-current assets		<b>117,856</b>	144,119
		<b>4,214,025</b>	4,365,171
<b>Current assets</b>			
Properties under development for sale		<b>3,921,107</b>	4,680,357
Completed properties held for sale		<b>300,991</b>	283,761
Inventories		<b>169</b>	153
Trade receivables	11	<b>106</b>	4,833
Other receivables, deposits and prepayments		<b>9,611</b>	93,312
Amounts due from related companies		<b>351,698</b>	634,833
Other current assets		<b>257,395</b>	255,167
Restricted bank balance		<b>13,005</b>	—
Bank balances and cash		<b>10,771</b>	40,980
		<b>4,864,853</b>	5,993,396
<b>Current liabilities</b>			
Trade and other payables and accruals		<b>1,048,202</b>	716,945
Contract liabilities		<b>353,000</b>	285,872
Amounts due to related companies		<b>1,157,510</b>	1,088,762
Lease liabilities		<b>5,939</b>	4,143
Tax payable		<b>71,844</b>	71,072
Bank and other borrowings			
— within one year		<b>3,770,692</b>	1,635,613
Due to a joint venture		<b>106,469</b>	—
Convertible bonds and bonds		<b>567,032</b>	1,040,985
		<b>7,080,688</b>	4,843,392

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
<b>Net current (liabilities) assets</b>	<u>(2,215,835)</u>	<u>1,150,004</u>
<b>Total assets less current liabilities</b>	<u>1,998,190</u>	<u>5,515,175</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities	170,678	513,649
Bank and other borrowings		
— over one year	461,103	2,347,421
Lease liabilities	3,830	—
Convertible bonds and bonds	<u>352,460</u>	<u>—</u>
	<u>988,071</u>	<u>2,861,070</u>
<b>Net assets</b>	<u><u>1,010,119</u></u>	<u><u>2,654,105</u></u>
<b>Capital and reserves</b>		
Share capital	28,550	28,550
Reserves	<u>786,070</u>	<u>2,400,792</u>
Equity attributable to owners of the Company	814,620	2,429,342
Non-controlling interests	<u>195,499</u>	<u>224,763</u>
<b>Total equity</b>	<u><u>1,010,119</u></u>	<u><u>2,654,105</u></u>

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1.1 BASIS OF PREPARATION

These unaudited consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

The functional currency of the Company is Renminbi (“RMB”), and for the purpose of more convenience to the readers to these unaudited consolidated financial statements, the unaudited consolidated financial statements are presented in Hong Kong dollars (“HK\$”).

## 1.2 GOING CONCERN

These unaudited consolidated financial statements have been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance on attaining profitable operations in future and the success of below plans and measures in view of the excess of current liabilities over current assets.

The Group reported a net loss attributable to the owners of the Company of approximately HK\$1,685.1 million for the year ended 31 December 2020. As at 31 December 2020, the Group’s current liabilities exceeded its current assets by HK\$2,215.8 million. As at the same date, the Group’s total borrowings amounted to approximately HK\$5,151.3 million, of which current borrowings amounted to approximately HK\$4,337.7 million, while its cash and cash equivalents amounted to approximately HK\$10.8 million only.

As at 31 December 2020, loan from an asset management company with principal of HK\$2,982.3 million and interest payable of HK\$254.0 million (the “Overdue Borrowings”) were overdue. During the year, the Group failed to repay the principal of HK\$1,033.7 million according to the repayment schedule which was considered as default and thus the remaining principal of HK\$1,948.6 million became immediately due in accordance with terms of loan agreement. Hence, the entire principal of HK\$2,982.3 million together with interest payable of HK\$254.0 million were classified as current liabilities as at 31 December 2020.

As stipulated in the relevant loan and financing agreements in respect of certain borrowings of the Group other than those mentioned above, the default of the guarantor may result in default of the Group’s borrowings. As a result of the default event from the guarantor, the principal amount of a borrowing of HK\$312.6 million was considered to be default (“Cross-default Borrowings”) and the entire amount of this borrowing has been classified as current liabilities as at 31 December 2020.

The Group is in active negotiations with the lender in respect of the Overdue Borrowings for a debt restructuring so as to settle the Overdue Borrowings by using the proceeds from new borrowing plans. The Group is also negotiating with the Cross-default Borrowing lender to renew the relevant borrowing. The Group are confident that agreements will be reached in due course.

Because of the aforementioned actions taken, management is confident that the lender(s) of the Overdue Borrowings and Cross-default Borrowing will not enforce their rights of requesting for immediate repayment.

All the above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company (the "Directors") have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken by the Group to mitigate its liquidity pressure and to improve its financial position which include, but are not limited to, the following:

- i. The Group has been actively negotiating with certain financial institutions and identifying various options for financing the Group's working capital, repayments of the overdue borrowings as well as the commitments in the foreseeable future;
- ii. The Group will seek to accelerate the pre-sales and sales of its properties under development and completed properties. Overall, the Group expects to gradually launch pre-sales of properties for two major projects starting from the third and fourth quarter of 2021 respectively;
- iii. The Group has been actively negotiating with a number of financial institutions for renewal and extension of bank borrowings and credit facilities; and
- iv. The Group will continue to take active measures to control administrative costs through various channels, including human resources optimisation, management remuneration adjustments and containment of capital expenditures.

The Directors are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the Directors believe that it is appropriate to prepare the unaudited consolidated financial statements of the Company on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the following:

- i. Successful obtaining new sources of financing as and when needed;
- ii. Successful accelerating the pre-sales and sales of properties under development and completed properties and speeding up the collection of outstanding sales proceeds, and controlling costs and capital expenditure so as to generate adequate net cash inflows;
- iii. Successful negotiations with the lenders for renewal of or extension for repayments beyond year 2021 for those borrowings that (a) are scheduled for repayment (either based on the original agreements or the existing arrangements) in year 2021; and (b) were overdue as at 31 December 2020 because of the Group's failure to repay the principal on or before the scheduled repayment dates; and

- iv. Successful persuading the Group's existing lenders not to take action to demand for immediate repayment of the defaulted borrowings in year 2021.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these unaudited consolidated financial statements.

## 2. ADOPTION OF NEW/REVISED HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs:

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

### *Amendments to HKASs 1 and 8: Definition of Material*

The amendments clarify the definition of material and align the definition used across HKFRSs.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

### *Amendments to HKAS 39, HKFRSs 7 and 9: Interest Rate Benchmark Reform — Phase 1*

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

### *Amendments to HKFRS 3: Definition of a Business*

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.



### *Amendments to HKFRS 16: Covid-19-Related Rent Concessions*

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021. The amendments do not affect lessors.

These amendments shall be applied for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group has elected to early adopt the amendments in the current year.

The adoption of the amendments does not have any impact on the consolidated financial statements as the Group did not receive any rent concession during the year.

### 3. REVENUE

For the year ended 31 December 2020 (unaudited)

	<b>Property development and leasing HK\$'000</b>	<b>Tourism park operations HK\$'000</b>	<b>Total HK\$'000</b>
<b>Revenue from contracts with customers within HKFRS 15</b>			
Recognised at point in time			
Sales of properties	1,470	—	1,470
Entrance fee, food and beverage	—	5,514	5,514
	1,470	5,514	6,984
<b>Revenue from other sources</b>			
Gross rental income from investment properties	11,969	—	11,969
<b>Total revenue</b>	<b>13,439</b>	<b>5,514</b>	<b>18,953</b>

For the year ended 31 December 2019 (audited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue from contracts with customers within HKFRS 15</b>			
Recognised at point in time			
Sales of properties	84,338	—	84,338
Entrance fee, food and beverage	—	18,219	18,219
	84,338	18,219	102,557
<b>Revenue from other sources</b>			
Gross rental income from investment properties	17,441	—	17,441
	101,779	18,219	119,998
<b>Total revenue</b>	<b>101,779</b>	<b>18,219</b>	<b>119,998</b>

The Group's revenue generated from its property development and leasing, and tourism park operations were all at fixed price.

#### 4. SEGMENT INFORMATION

Information reported to the Group's executive directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focused on the types of goods or services delivered or provided. The Group's reportable segments for the CODM's purposes are (i) property development and leasing and (ii) tourism park operations.

The property development and leasing segment is principally engaged in property sales and leases to customers in property market.

The tourism park operations segment is engaged in operation of theme parks and provision of food and beverage services in the theme parks.

For the purpose of assessing the performance of the operating segments and allocating resources between segments, the CODM assess segment results without allocation of other gains and losses, other income, gain/loss on disposal of subsidiaries, share of results of joint ventures, gain/loss on extinguishment/modification of bonds and convertible bonds, finance costs and certain administrative expenses. The basis of preparing such information is consistent with that of the consolidated financial statements.

The accounting policies of the reporting segments are the same as the Group's accounting policies.

## Segment revenue and results

An analysis of the Group's revenue and results by reportable segments is as follows:

For the year ended 31 December 2020 (unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers and segment revenue	<u>13,439</u>	<u>5,514</u>	<u>18,953</u>
Reportable segment results	<u>(1,730,418)</u>	<u>(19,330)</u>	<u>(1,749,748)</u>
Unallocated income and expenses:			
Other gains and losses			(184,342)
Other income			16,888
Gain on disposal of subsidiaries			20,989
Share of results of joint ventures			(238,433)
Gain on extinguishment of convertible bonds			183,241
Gain on modification of bonds and convertible bond			8,020
Administrative expenses			(17,965)
Finance costs			<u>(116,959)</u>
Loss before tax			(2,078,309)
Income tax credit			<u>356,250</u>
Loss for the year			<u><u>(1,722,059)</u></u>

For the year ended 31 December 2019 (audited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Revenue from external customers and segment revenue</b>	<u>101,779</u>	<u>18,219</u>	<u>119,998</u>
<b>Reportable segment results</b>	<u>43,047</u>	<u>(1,465)</u>	<u>41,582</u>
Unallocated income and expenses:			
Other gains and losses			(48,162)
Other income			26,492
Loss on disposal of subsidiaries			(7,642)
Share of results of joint ventures			(7,653)
Loss on extinguishment of convertible bonds			(1,623)
Administrative expenses			(36,964)
Finance costs			<u>(128,575)</u>
Loss before tax			(162,545)
Income tax expense			<u>(38,626)</u>
Loss for the year			<u><u>(201,171)</u></u>

No analysis of segment assets and segment liabilities is presented as such information is not regularly provided to the CODM for the purposes of resources allocation and performance assessment.

## Other information

For the year ended 31 December 2020 (unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditures				
— Property, plant and equipment	30,585	11	—	30,596
Depreciation				
— Property, plant and equipment	2,547	132	—	2,679
— Right-of-use assets	1,330	1,877	3,427	6,634
— Loss on disposal of property, plant and equipment	4	—	—	4
— Loss on disposal of Right-of-use assets	—	—	256	256
— Impairment loss of property, plant and equipment	104,901	—	—	104,901
— Impairment loss of properties under development for sale	<u>1,374,563</u>	<u>—</u>	<u>—</u>	<u>1,374,563</u>

For the year ended 31 December 2019 (audited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditures				
— Property, plant and equipment	58,872	354	—	59,226
Depreciation				
— Property, plant and equipment	2,882	95	30	3,007
— Right-of-use assets	1,321	1,770	4,375	7,466
Loss on disposal of property, plant and equipment	<u>1,166</u>	<u>—</u>	<u>—</u>	<u>1,166</u>

## Geographical information

The Group is principally engaged in properties development and leasing and tourism park operations in the PRC.

Information about the Group's revenue from external customers is presented based on the location at which the goods or services are delivered or provided. Information about the Group's non-current assets is presented based on the geographical location of the assets or place of establishment.

The following table sets out information about the geographical location of the Group's revenue from external customers and non-current assets.

	Revenue from external customers		Non-current assets	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (audited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (audited)
The PRC	18,953	119,998	4,211,402	3,047,331
Hong Kong	—	—	2,623	4,010
	<u>18,593</u>	<u>119,998</u>	<u>4,214,025</u>	<u>3,051,341</u>

### Information about major customers

There are three (2019: one) external customers individually contributing property development and leasing revenue of HK\$11,792,000 (2019: HK\$69,657,000), which over 10% of the total revenue of the Group for the year ended 31 December 2020.

## 5. LOSS BEFORE TAX

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (audited)
Loss for the year has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments):		
Salaries and other benefits	36,700	46,453
Equity-settled share-based payments	—	8,818
Retirement benefit costs	515	4,381
	<u>37,215</u>	<u>59,652</u>
Auditor's remuneration	1,467	1,650
Cost of properties sold*	1,104	59,884
Depreciation of property, plant and equipment	2,679	3,007
Depreciation of right-of-use assets	6,634	7,466
Impairment loss of property, plant and equipment	104,901	—
Impairment loss of properties under development for sale	1,374,563	—
Loss on disposal of property, plant and equipment	4	1,166
Loss on disposal of right-of-use assets	256	—
	<u>(11,969)</u>	<u>(17,441)</u>
Gross rental income from investment properties	(11,969)	(17,441)
Less: Direct operating expense, as included in selling expenses	2,583	3,524
	<u>(9,386)</u>	<u>(13,917)</u>

\* Included in cost of properties sold are interest expenses of approximately HK\$65,000 (2019: approximately HK\$3,542,000).

## 6. INCOME TAX (CREDIT) EXPENSE

The taxation charged to profit or loss represents:

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
Current tax		
PRC Enterprise Income tax ("EIT")	163	11,426
Land appreciation tax ("LAT")	—	4,301
	<u>163</u>	<u>15,727</u>
Deferred tax, including EIT and LAT	<u>(356,413)</u>	<u>22,899</u>
	<u><u>(356,250)</u></u>	<u><u>38,626</u></u>

No provision for Hong Kong Profit Tax had been provided as the Group did not have any assessable profit from Hong Kong for the years ended 31 December 2020 and 2019.

The income tax provision in respect of the Group's subsidiaries in the PRC is calculated at the Enterprise Income Tax rate of 25% on the estimated assessable profits for the years ended 31 December 2020 and 2019 based on existing legislation, interpretations and practices in respect thereof.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

## 7. DIVIDENDS

The board of directors does not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

## 8. LOSS PER SHARE

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

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
<b>Loss</b>		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	<u><u>(1,685,051)</u></u>	<u><u>(199,812)</u></u>

	2020 '000 (unaudited)	2019 '000 (audited)
<b>Number of shares</b>		
Weighted average number of shares for the purpose of basic and diluted loss per share	<u>285,491</u>	<u>285,491</u>
	2020 (unaudited)	2019 (audited)
<b>Loss per share:</b>		
— Basic	<u>(HK\$5.9023)</u>	<u>(HK\$0.6999)</u>
— Diluted	<u>(HK\$5.9023)</u>	<u>(HK\$0.6999)</u>

*Note:*

The computation of diluted loss per share for the years ended 31 December 2020 and 2019 did not assume the conversion of the Company's Convertible Bonds I and II since its assumed exercise would result in decrease in loss per share.

It also did not assume the exercise of share options under the Company's share option scheme since its assumed exercise would have anti-dilutive effect for the years ended 31 December 2020 and 2019.

## 9. INVESTMENT PROPERTIES

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (audited)
<b>Fair value</b>		
At 1 January	2,567,861	5,512,086
Additions	73,766	327,904
Transferred to properties under development for sale ( <i>note 1</i> )	—	(3,228,360)
(Loss) Gain on fair value change of investment properties	(194,149)	91,594
Exchange realignment	<u>162,191</u>	<u>(135,363)</u>
<b>At 31 December</b>	<u>2,609,669</u>	<u>2,567,861</u>

*Note 1:* The transfer of properties from investment properties to properties under development for sale represents the project of COMB+ (Beijing Fangshan) (1 piece of land under construction in 2019).

The Group's property interests held under leases to earn rentals are measured using fair value model and is classified and accounted for as investment properties.



## 10. INVESTMENT IN JOINT VENTURES

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
Cost of investment, unlisted	1,411,516	1,355,195
Share of post-acquisition results and other comprehensive losses	<u>(202,630)</u>	<u>(41,365)</u>
	<b><u>1,208,886</u></b>	<b><u>1,313,830</u></b>

Name of joint venture	Place of establishment/ operations	Class of shares held	Proportion of ownership interest		Proportion of voting rights held		Nature of business
			2020	2019	2020	2019	
SkyOcean Real Estate (Tangshan) Co., Ltd (“SkyOcean Tangshan”)	PRC	Paid capital	51%	51%	50%	50%	Property development
TianMao Cultural Development (Jiangyin) Co., Ltd (“TianMao”)	PRC	Paid capital	51%	51%	51%	51%	Property development

### Notes:

- (i) Upon the completion of the disposal on 15 November 2018, the Group, through SkyOcean International United Limited (“SkyOcean United”), a subsidiary of which 82.35% interest is held by the Group, held 51% equity interest of SkyOcean Tangshan.
- (ii) As stipulated in the articles of association of SkyOcean Tangshan, the Group has the right to appoint one out of two directors which are responsible for making decisions of its relevant activities and those decisions require the unanimous consent of both directors. In this regard, the Group’s 51% equity interest in SkyOcean Tangshan is accounted for as a joint venture of the Group.
- (iii) On 30 January 2019, SkyOcean Cultural Development Company Limited (“SkyOcean Cultural”), an indirectly wholly-owned subsidiary of the Group, entered into an agreement with Jinmao Suwan Corporate Investment (Tianjin) Company Limited (“Jinmao Investment”), an independent third party, pursuant to which TianMao was established as the key investment entity to obtain a land in JiangSu and to undertake a property development project. In accordance with the agreement, TianMao is owned as to 51% by SkyOcean Cultural and 49% by Jinmao Investment, and as at 30 June 2019, SkyOcean Cultural contributed RMB71,400,000 (equivalent to approximately HK\$83,551,000) in proportion of its equity interest in TianMao. On 22 October 2019, SkyOcean Cultural further contributed RMB30,600,000 (equivalent to approximately HK\$33,958,000) in proportion of its equity interest in TianMao. During the year ended 31 December 2020, SkyOcean Cultural has further contributed RMB51,000,000 (equivalent to approximately HK\$56,321,000) in aggregate in proportion of its equity interest in TianMao. As the decisions about the relevant activities of TianMao require the unanimous consent of all shareholders, accordingly, TianMao is accounted for as a joint venture of the Group.

The joint ventures are accounted for using the equity method in these unaudited consolidated financial statements.

## 11. TRADE RECEIVABLES

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
Trade receivables	1,567	4,839
Less: allowance for credit losses	<u>(1,461)</u>	<u>(6)</u>
	<u><b>106</b></u>	<u><b>4,833</b></u>

At 31 December 2020 and 1 January 2020, the net carrying amount mainly represented by lease receivables amounted to approximately RMB89,000 (equivalent to approximately HK\$106,000) and RMB4,335,000 (equivalent to approximately HK\$4,833,000) respectively.

The ageing analysis of trade receivables (net of allowance for credit losses) by invoice date at the end of the reporting is as follows:

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
Current to 90 days	<u><b>106</b></u>	<u><b>4,833</b></u>

At 31 December 2020, no debtors which are past due but not impaired.

For trade receivables, the Group applies the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Trade receivables are assessed individually for impairment allowance based on the historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of each reporting period, including time value of money where appropriate.

Movements in allowance for credit losses:

	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (audited)
At beginning of the reporting period	(6)	(6)
Increase in allowance	(1,382)	—
Written off	6	—
Exchange realignment	<u>(79)</u>	<u>—</u>
At end of the reporting period	<u><b>(1,461)</b></u>	<u><b>(6)</b></u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

During the year, the Group recorded revenue of HK\$19.0 million, representing a decrease of 84% from HK\$120.0 million in 2019, which was mainly due to the decrease in revenue from sales of properties.

The Group recorded a net loss of HK\$1,722.1 million (2019: HK\$201.2 million). The loss was primarily attributable to (i) the loss on fair value change of investment properties amounted to HK\$194.1 million (2019: gain of HK\$91.6 million) and (ii) the impairment loss recognized in respect of property, plant and equipment and properties under development for sales amounted to HK\$1,479.5 million. The loss on fair value change and impairment loss recognized was initiated by the compression of commercial property market sentiments and the slowdown of mainland China's economic growth amid the COVID-19 pandemic in 2020. In addition, there was provision for settlement fee and other relevant cost incurred in respect of the litigations with certain construction contractors and lenders of HK\$137.8 million.

As at 31 December 2020, the total assets of the Group decreased to HK\$9,078.9 million from HK\$10,358.6 million as at 31 December 2019. The net assets of the Group decreased to HK\$1,010.1 million (31 December 2019: HK\$2,654.1 million).

Basic loss per share attributable to the owners of the Company for the year amounted to HK\$5.9023 (2019: HK\$0.6999).

### **BUSINESS REVIEW**

The Group adhered to the cultural entertainment industry as the core, closely followed social opportunities, and continued to promote the implementation of its strategy, focusing on project development in the three major metropolitan areas, including Greater Beijing, Greater Shanghai and Greater Shenzhen. During the period under review, the principal activities of the Group included the development and operation of cultural tourist resorts and theme parks under the brand of "DreamEast", property development and leasing businesses.

The outbreak of the new coronavirus pneumonia epidemic in 2020 almost disrupted the whole industry, sector and space, with the cultural tourism industry hit badly. In addition, the outbreak coincided with the spring festival holiday, which is the peak season for cultural tourism, thus causing a huge impact on the cultural tourism industry chain. The whole industry was almost "shut down". Even after the epidemic control has come to an end, the resumption of cultural tourism industry was shadowed by the sluggish demand due to public worries about the epidemic. Cultural tourism industry suffered a heavy setback from the epidemic, with industry revenue, profits and growth rate facing a precipitous decline.

In 2020, sales in the real estate industry were stagnant. Group marketing activities, online registration filing channels in some cities and even issuance of pre-sale permits were suspended due to the impact of the pre-epidemic policies. During the post-epidemic period, capital and investment intentions shrank, and it will take a long time for overall sales and leasing to resume after the work resumption. Real estate companies generally faced tighter financing channels, higher financing costs and unmet financing conditions, which affected liquidity. In addition, the inability to proceed with the launch schedule and the delay in project commencement also had a significant impact on the operation of enterprises.

Under such a difficult environment, the Group's operations inevitably suffered a significant impact. In order to comply with the epidemic prevention and control measures, the Group's operating tourist resorts and theme parks temporarily suspended their operations in accordance with the epidemic prevention requirements in various regions, resulting in a significant decline in the Group's revenue and profit. In addition, the construction in progress has been suspended and some projects are experiencing capital shortages. The Group is actively seeking various solutions to address these issues. However, there was also a lot of good news in 2020. The DreamEast Xiake Island Ecological City was sold out on the same day of commencement of sales for three times in 2020, and such phenomenal hot sales performance was recorded in the history of Wuxi property market. The DreamEast Future World was assessed by the Department of Science and Technology of Hebei Province as "the first batch of science demonstration bases in Hebei Province".

## **Cultural Entertainment Business**

Adhering to the promotion of Chinese culture with the focus on Chinese stories in the form of entertainment, original designs and craftsmanship, the development concept featuring "all-IPs" in our projects and the principle of User First, DreamEast is committed to delivering new entertainment experience with perfect online and offline integration by creating a unique offline entertainment platform. Meanwhile, with the vision of "Share the Beauty of China with the World (全球共享東方之美)", it commits to the development approach of "Innovation and Globalization" which integrates Chinese history, humanities, art, aesthetics and fashion into its works, and creates unique new entertainment experience for customers with its oriental craftsmanship.

### ***Hengyang DreamEast Resort***

The Hengyang DreamEast Resort is situated in Hengyang, Hunan Province, China. It is at the south of Mount Heng, which is surrounded by time-honoured cultural heritage and magnificent natural landscape, and is the important origin of Huxiang Culture. Hengyang DreamEast Resort selects its site in the urban district of south Hengyang, backed by Yumu Mountain and Hengshan Technology City in the east. It is approximately 15 kilometers away from Hengnan County in a straight line, and is created as a city of memory related to Huxiang Culture with Huxiang Culture as the soul and Huxiang landscape as the skeleton.

The development of the Hengyang DreamEast Resort comprised of “Four Towns and Five Parks”, including the cultural town, the science and technology town, the forest town and the agricultural town as the Four Towns, and the DreamEast Adventure Park, the Fantasy Waterpark, the Pets Kingdom, the Agricultural Cultural Park and the International Sports Park as the Five Theme Parks. The DreamEast Shooting (Clay) Centre with a site area of approximately 69,000 square meters in the Hengyang DreamEast Resort was completed, and held the clay shooting match of the thirteenth sports game of Hunan province and the Hunan “DreamEast Cup” Youth Shooting Championship (Clay Project) successfully. The shooting centre will be opened to tourists for shooting experience in the future as one of the entertainment activities.

Taking advantages of the rich historical cultural and ecological resources of Hunan Province, and its superior development location, Hengyang DreamEast Resort undertakes the historical opportunities for the development and transformation of the entire city. With the support of vigorously developing the cultural and tourism industry by the nation, provinces and cities, Hengyang DreamEast Resort is expected to emerge as a tourist destination in Hengyang City and a national benchmark of industry linkage among primary, secondary, tertiary industry, and industry-city integration development, with aims to achieve a new industrial development model featuring with industry-city integration, tourism-city integration, and ecological integration, and thus creating a new center of Hengyang cultural and tourism industry that is green, ecological and sustainable development under the background of the new economic normal to present the world a city of Huxiang Culture, and become the core driving force of the “Southern Expansion” of Hengyang, thereby forming a new pattern characterized by “Mount Heng in the North and DreamEast in the South”.

### ***DreamEast Jiashan***

The DreamEast Jiashan is positioned itself as a children dream world for the whole family and located in Jiashan County, Jiaxing, Zhejiang Province in Greater Shanghai, China. In terms of comprehensive strength, Jiashan County is one of the top 100 counties in China. Situated at the intersection of Jiangsu Province, Zhejiang Province and Shanghai, Jiashan is the core district of the Yangtze River Delta city cluster and the first connection between Zhejiang Province and Shanghai. The DreamEast Jiashan is located in the tourist resort of Dayun Town, Jiashan with a planned area of approximately 733,000 square meters and will be developed in three phases. Phase 1 covers DreamEast Jiashan Experience Zone, Deer Elf Discovery Park, Dream Theatre, Dream Space, Hyatt Place Hotel, etc.; Phase 2 and Phase 3 comprise of a water village incorporating the millennia-old Wuyue culture with the functions of cultural experience, homestay tour, themed business, boutique inn and tourist residence, which is a children dream world that connects the whole family with art, aesthetics and innovation.

The 101 Experience Centre, which integrates cultural and artistic display and experience, was opened to the public. Later, it will serve as a tourist reception centre and image display window of the DreamEast Jiashan and even the Sweet Town, and be used to display various art forms such as painting, photography, sculpture, Jiangnan folk culture and Jiashan non-heritage culture, so that the whole family can be baptized with art and culture in happiness.

Phase 2 of the DreamEast Jiashan was included in the plans including “Zhejiang Province’s ‘4 + 1’ Major Project Construction Plan”, “Zhejiang Province’s ‘Five 100 Billion’ Investment Project”, “Major Projects Intensively Commenced in Zhejiang Province” and “Major Project Plan of the Service Industry in Zhejiang Province”. After the project is completed and put into operation, it will bring considerable benefits. It will further increase the development level of the culture and tourism industry in Jiashan, strengthen the integration and upgrade of cultural and tourism projects in the region, accelerate the construction of Jiashan Chocolate Sweet Town, promote the transformation and upgrading of service industries in the region, to achieve a win-win situation for enterprises and local fiscal revenue.

### ***Xiake Island Ecological City***

Xiake Island Ecological City is located in Xu Xiake Town, Jiangyin City in Jiangsu Province within the greater Shanghai region. With the Yangtze River on its north and Taihu Lake a little way on its south, Jiangyin has been an important transportation hub and a key military site since ancient times. It has a long history and rich cultural heritage, and was the home of the famous explorer Xu Xiake, and has been called “the Ancient County of Yanling” and “a loyal and righteous state”. Having the most listed companies in the county, it is also called the “Number One County-level City with the Most Capital in China”. By leveraging on its nearly 3.33 million square meters of natural wetland resources, Xiake Island Ecological City will turn itself into a highland to present and promote the Xu Xiake culture, and a tourist destination for “its original wetland life forms and an exceptional experience of the Xu Xiake culture”.

With a unique shape of “Paradise + Town”, Xiake Island Ecological City is a cultural town of Xu Xiake that integrates Xiake Academy, Mufu Clubhouse and theater space, combining with Xu Xiake Adventure Park that integrates motor-driven game, specialty catering and themed Concept Guesthouse representing a rare cultural travel model in China. It is believes that by leveraging on the cultural IP of “Xu Xiake”, Xiake Island Ecological City will achieve the integration and connection of multiple commercial activities to emerge as a new Chinese cultural and tourism complex for all ages. In the future, Xiake Island Ecological City will not only become a destination of learning and recreation for families in the Pan-Yangtze River Delta , but also will attract tourists from all over the world to have fun here!

On 22 January 2019, the Group made a successful bid for the land use rights of three pieces of lands situated at Xu Xiake Town, Jiangyin City in Jiangsu Province for commercial use at the total price of RMB474 million (approximately HK\$551 million). Meanwhile, the Group entered into the cooperation agreement with 金茂蘇皖企業管理(天津)有限公司 (Jinmao Suwan Corporate Investment (Tianjin) Company Limited) (“Jinmao Investment”) on 30 January 2019, in relation to the establishment of a joint venture company for codevelopment of Xiake Island Ecological City. Jinmao Investment was an indirect wholly-owned subsidiary of China Jinmao Holdings Group Limited (Stock Code: 817.HK). Pursuant to the cooperation agreement, the joint venture company will be owned as to 51% by the Group and 49% by Jinmao Investment. The joint venture company will be accounted for as a jointly controlled entity of the Group and the Group will recognise its interest in the joint venture company using the equity method in accordance with the relevant accounting principles. The revenue, assets and liabilities of the joint venture company will hence not be consolidated into the consolidated financial statements of the Group.

Xiake Island Ecological City was launched for the first time on 20 June 2020, with 600 small high-rise units all sold out within two hours, breaking the local record for the first sale of units in 2020. On 8 October, the project was launched for the second time and all the 367 units launched were sold out within one hour. On 5 December, Xiake Island Ecological City was launched for the third time, and a total of 391 units were sold on that day, achieving a single-day turnover of RMB550 million. The phenomenal hot sales performance achieved by the project of being launched three times and sold out at each time was recorded in the history of Wuxi property market.

### ***DreamEast Future World Aerospace Theme Park***

DreamEast Future World is the first aerospace theme park in China and the second in the world, and a national AAAA-level tourist attraction. Located in Yanjiao National High-tech Development Zone in the east of Beijing, the scenic spot enjoys a unique geographical location. It is only a 30-minute drive from Tiananmen Square in Beijing, just across the river from Beijing’s sub-center, and adjacent to transportation hubs such as Beijing Capital International Airport and Yanjiao Railway Station. It has been honored as a social classroom resource unit for primary and secondary school students in Beijing, one of the top ten cultural industry projects in Hebei Province, the scientific quality education base for all citizens in Hebei Province and the municipal best research and learning scenic spot. In March 2020, in view of the high-quality aerospace science resources and huge social influence of DreamEast Future World, it has been identified as the first batch of Hebei science popularization demonstration base by the Department of Science and Technology of Hebei Province, which greatly meets the needs of aerospace culture popularization in the Beijing-Tianjin-Hebei region.

DreamEast Future World covers a total area of 16,000 square metres and contains more than 30 high-tech experience projects. It is a comprehensive aerospace science and technology museum that integrates aerospace technology exhibitions, extracurricular science popularization education, and high-tech interactive experiences. The scenic spot adheres to the mission of “Popularizing Aerospace Knowledge and Spreading Aerospace Spirit” and has accumulatively received more than one million primary and middle school students and members of research and study groups at home and abroad. Through entertaining science popularization, it stimulates children’s love for the aerospace undertaking, plants the seeds of science for children, and enlightens their aerospace dream. It is the second classroom for primary and middle school students to learn and grow and has developed into an influential aerospace technology research and study destination in China.

In 2020, DreamEast Future World scenic spot faced huge challenges brought about by the new coronavirus epidemic; however, the excellent operating team of the scenic spot had overcome the ever-changing market changes and finally ushered in a full recovery of the tourism market. In March, the scenic spot responded to the call of building a powerful country in science and technology, actively carried out the R&D of aerospace science popularization courses and established a R&D team for the “space science popularization exhibitions and research curriculum development” project, which integrated aerospace science and technology, astronomy, history and other resources and made full usage of our own advantages to highlight the concept of “science popularization in entertaining” in a comprehensive manner. It had successively launched a series of research courses such as the Aerospace History Exhibition, the Little Ambassador of Aerospace Popularization, and Scientific Experiments, which were selected into the Hebei Province Innovation Capability Enhancement Programme. The scenic spot aimed to build a model aerospace popularization base project.

On 21 August, during the 20th anniversary of the National Science and Technology Week, the “Hebei Province Popularization of Science in Youth Mass Activity”, hosted by Hebei Department of Science and Technology, Propaganda Department of Hebei Provincial Communist, Hebei Education Department and Hebei Association for Science and Technology and undertaken by Langfang Science and Technology Bureau and Yanjiao High-tech Industrial Development Zone Management Committee, entered Langfang and officially launched at DreamEast Future World Aerospace Science Base, which also marked the kickoff of the 2020 Yanjiao High-tech Zone Science and Technology Activity Week. The abundant activities and diversified forms received general attention from the society and attracted more than 5,000 technology enthusiasts to visit and study. It has been reported by more than 200 authoritative media such as Hebei Satellite TV, China Daily, China News, China Financial Information Network and Global Finance. On 29 November, the Culture Entering Scenic Spots Activity was organized by Hebei Provincial Department of Culture and Tourism and undertaken by children sector of Hebei Provincial Theatre in the Future World. The children’s drama “The Fox and the Gun” sold out for every performance and received widely and highly praise by tourists.



## **Property Development and Leasing Business**

### ***Beijing Fangshan “COMB+” Project (the “Fangshan Project”)***

The Beijing Fangshan “COMB+” Project is located between the Southwest 5th and 6th Ring Roads in Beijing, China and only 2 minutes’ walk from Suzhuang Station on Fangshan Line of the Beijing Subway. In July 2014, the Group acquired 3 land parcels for the North, Central and South Zones of the project at a total consideration of approximately HK\$3.3 billion. The project occupies a total site area of approximately 147,000 square metres, with a gross floor area of approximately 434,000 square metres and a planned gross floor area of approximately 322,000 square metres.

The project is the first large-scaled integrated community in the district, which is not only the then key investment solicitation project on Fangshan District, but also the key project of constructing knowledge economy international demonstration zone. However, in the second half of 2017, the Beijing government implemented various adjustment measures to cool down the property market, coupled with adjustments to the policies of bank loan granting, resulting in the substantial stagnation of sales of Fangshan “COMB+” Project with slow development progress and difficult operation. Up to now, the sold gross floor area of Fangshan Project is 66,000 square meters, and the overall remaining salable sold gross floor area is approximately 259,000 square meters.

Please refer to the announcement of the Company dated 11 March 2021 published on the website of the Stock Exchange for the latest update on the development of Fangshan Project.

## **PROSPECTS**

The integration of culture and tourism is undoubtedly an important issue in the development of tourism in recent years. In particular, the official establishment of the Ministry of Culture and Tourism marked the beginning of a new era of culture and tourism in China, and the cultural tourism industry is also recognized as a new blue ocean for the development of the tourism industry. The establishment of the Ministry of Culture and Tourism is a reflection of the government’s emphasis on the culture and tourism market in recent years, indicating that “Culture + Tourism” will become an important driving force for domestic economic development, and will promote cultural tourism enterprises to increase the intensity of excavation in the cultural industry, inject more cultural connotation while creating tourism hardware projects, and create super tourism IPs to reconstruct the entire tourism industry system, so as to boost the overall upgrade of the cultural tourism industry and lead the development of the tourism economy into a virtuous circle. At the same time, the “Cultural Tourism +”, a new type of business, also brings greater opportunities to the regional tourism industry.

Adhering to the original designs and craftsmanship, DreamEast has ploughed deep in the cultural industry for 17 years. It put forward the “all-IPs” concept and “new entertainment” principle firstly and has been adhering to creating unique and excellent works to “Share the Beauty of China with the World”. DreamEast has its own understanding and strategy on the development of theme parks. The strategy has been changed from “emphasizing the excavation and creation of cultural theme” to “focusing on the seven aspects of the successful operation of theme parks”, and further changed to “creating theme cultural tourism projects featuring ‘all-IPs’ with ‘new entertainment’ concept”. Although the cultural tourism industry keeps moving forward half speed due to the pandemic, DreamEast will continue to renew its commitment to the original aspirations and concentrate on creating excellent products with craftsmanship and perseverance. In addition to continuing to strengthen its core competitiveness, it will actively seek changes to seize the opportunities arising from crisis and turn the crisis into opportunities.

In the long run, DreamEast will develop into a cultural and entertainment conglomerate, so as to create stable and sustainable returns for shareholders. With the progress of project development, the Group’s cultural entertainment business will enter a positive development stage consisting of leasing, operation, ticket income and self-developed IPs, and will establish an ecosystem that centres on the cultural entertainment industry. In the future, DreamEast will inherit and innovate Chinese culture with its masterpieces, boost the profile of Chinese culture and connect the world with the culture.

## **LIQUIDITY AND FINANCING**

As at 31 December 2020, the Group had a financial position with net assets value of HK\$1,010.1 million (31 December 2019: HK\$2,654.1 million). Net current liabilities amounted to HK\$2,215.8 million (31 December 2019: net current assets amounted to HK\$1,150.0 million) with current ratio decreasing from 1.24 times at 31 December 2019 to approximately 0.69 times at 31 December 2020. The Group’s total current assets as at 31 December 2020 amounted to approximately HK\$4,864.9 million (31 December 2019: HK\$5,993.4 million), which comprised properties under development for sale, completed properties held for sale, inventories, trade receivables, other receivables, deposits and prepayments, amounts due from related companies, other current assets, bank balances and cash. The Group’s total current liabilities as at 31 December 2020 amounted to approximately HK\$7,080.7 million (31 December 2019: HK\$4,843.4 million), which comprised trade and other payables and accruals, contract liabilities, provision, amounts due to related companies, lease liabilities, tax payable, bank and other borrowings — within one year, due to a joint venture and convertible bonds and bonds. The Group’s gearing ratio was approximately 8.0 times (31 December 2019: 2.9 times) based on total liabilities of approximately HK\$8,068.8 million (31 December 2019: HK\$7,704.5 million) and total equity of approximately HK\$1,010.1 million (31 December 2019: HK\$2,654.1 million).

On 24 December 2015, the Company issued a five-year term RMB zero coupon convertible bonds due 2020 in an aggregate principal amount of RMB1,500 million to SkyOcean Investment Holdings Limited, the immediate holding company of the Company (“SkyOcean CB”). As at 31 December 2020, the outstanding principal amount of the SkyOcean CB amounted to RMB450 million (equivalent to approximately HK\$520.6 million). On 28 October 2020, the Company and SkyOcean Investment entered into the deed of amendment, pursuant to which it is agreed that, (i) the maturity date of the outstanding SkyOcean CB shall be extended from 23 December 2020 to 23 December 2025; (ii) the existing conversion price of HK\$6.80 per Share will be adjusted to the revised conversion price of HK\$2.00 per Share; and (iii) the SkyOcean CB shall bear interest from, and including the effective date at the rate of 5% per annum of the outstanding principal amount of the SkyOcean CB, which is payable semi-annually.

On 12 November 2015 and on 28 June 2016, the Company entered into subscription agreements with Chance Talent Management Limited, an indirect wholly-owned subsidiary of CCB International (Holdings) Limited (the “CCBI Bond Holder”), pursuant to which the CCBI Bond Holder subscribed for bonds (“CCBI Bonds”) in aggregate of HK\$740 million and convertible bonds (“CCBI CB”) of RMB29.5 million (equivalent to HK\$36.0 million), respectively. As at 31 December 2020, the outstanding principle amount of the CCBI Bonds was HK\$524 million, of which HK\$100 million was matured on 31 December 2020 and the remaining balance will be matured on 30 June 2021. The outstanding principal amount of the CCBI CB as at 31 December 2020 was RMB19.7 million (equivalent to HK\$24.0 million), which will be matured on 30 June 2021. The Company was in the process of negotiation with the CCBI Bond Holder on repayment schedule at the end of the reporting period.

## **GOING CONCERN AND MITIGATION MEASURES**

In order to meet its financial obligations as and when they fall due within the next twelve months and improve the Group’s current ratio, the directors of the Company have been undertaking a number of measures to improve the Group’s liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which include:

- i. The Group has been actively negotiating with certain financial institutions and identifying various options for financing the Group’s working capital, repayments of the overdue borrowings as well as the commitments in the foreseeable future;
- ii. The Group will seek to accelerate the pre-sales and sales of its properties under development and completed properties. Overall, the Group expects to gradually launch pre-sales of properties for Hengyang DreamEast Resort and DreamEast Jiashan projects starting from the third quarter and fourth quarter of 2021 respectively;
- iii. The Group has been actively negotiating with a number of financial institutions for renewal and extension of bank borrowings and credit facilities; and

- iv. The Group will continue to take active measures to control administrative costs through various channels including human resources optimisation and management remuneration adjustments and containment of capital expenditures.

## **CURRENCY AND FINANCIAL RISK MANAGEMENT**

With the majority of the Group's businesses transacted in RMB and HK\$, the aforesaid currencies are defined as the functional currency of the Company and some subsidiaries respectively. Apart from certain bank balances and cash and bonds denominated in foreign currencies, the Group is not subject to any significant risk from fluctuations in exchange rates. No currency hedging arrangement had been made by the Group during the reporting period. The Group will closely monitor and manage its exposure to fluctuation in foreign exchange rates.

## **PLEDGE OF ASSETS**

As at 31 December 2020, properties under development for sale with carrying amount of approximately HK\$3,543.2 million (31 December 2019: HK\$4,083.9 million), investment properties with carrying amount of approximately HK\$2,609.7 million (31 December 2019: HK\$2,567.9 million), completed property held for sale with carrying amount of approximately HK\$301.0 million (31 December 2019: HK\$283.8 million), property, plant and equipment with carrying amount of approximately HK\$63.6 million (31 December 2019: HK\$54.5 million), and right-of-use assets with carrying amount of approximately HK\$51.1 million (31 December 2019: HK\$48.4 million) were pledged to certain banks, a financial institution and a related party to secure borrowings obtained from the aforesaid parties.

## **SIGNIFICANT INVESTMENT HELD**

During the year, the Group held approximately 42% effective equity interests of SkyOcean Real Estate (Tangshan) Co., Ltd. and 51% equity interests of TianMao Cultural Development (Jiangyin) Co., Ltd.

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES**

During the year, there were no material acquisitions or disposals of subsidiaries and associates by the Group except for the disposal of COMB+Technology Holdings Limited and its subsidiaries on 3 November 2020 and 夢東方(無錫)文化投資有限公司 (DreamEast (WuXi) Cultural Investment Co., Limited\*) on 19 March 2020.

## **MANAGEMENT AND STAFF**

At 31 December 2020, the total number of employees (including both full time and part time) was approximately 148 (31 December 2019: 338). Total staff costs amounted to approximately HK\$37.2 million for the year ended 31 December 2020 (2019: HK\$59.7 million). The Group offers competitive remuneration packages, together with discretionary bonuses to its staff, based on industry practices, and individual and Group performances. The Group also offers training courses and continuous education sessions as part of the Group's emphasis on staff training and development.

## **CONTINGENT LIABILITIES**

As at 31 December 2020, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of HK\$171.6 million (31 December 2019: HK\$270.0 million).

## **LEGAL DISPUTES**

As at 31 December 2020, the Group is subjected to several legal claims amounted to approximately HK\$4,115.0 million, mainly in relation to disputes under construction contracts in respect of its various property development projects and defaults of repayment of several bank and other borrowings, which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, property, plant and equipment, right-of-use asset, properties under development for sale and properties held for sale in an aggregate amount of approximately HK\$5,998.2 million and the withdrawal of bank deposits of approximately HK\$13.0 million as at 31 December 2020. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or is in the process of making counter claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group.

The management has sought advice from the independent legal advisors or internal legal counsel on these matters. As at 31 December 2020, the Group has provided construction cost liabilities due to litigation amounting to HK\$76.7 million (31 December 2019: HK\$12.1 million) in relation to the above mentioned construction contracts under dispute.

Other outstanding legal claims that are subjected to legal proceedings and/or appeal amounted to approximately HK\$3,642.5 million in aggregate. Provision for litigation on other claims amounted to HK\$61.1 million (31 December 2019: HK\$Nil) has been made in the consolidated financial statements in respect of these claims. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

Except for the matters disclosed elsewhere in this announcement, the Group has the following litigations with some of its lenders:

- 1) On 10 January 2017, 北京天洋基業投資有限公司 (Beijing SkyOcean Foundation Investments Co., Ltd.\*) (“Beijing SkyOcean”), an indirect wholly-owned subsidiary of the Company entered into a loan agreement with 恒豐銀行股份有限公司北京分行 (Hengfeng Bank Securities Co., Ltd. Beijing Branch\*) (“Hengfeng Bank”), pursuant to which Hengfeng Bank granted a term loan in the amount of RMB2,800.0 million (equivalent to approximately HK3,327.0 million) to the Beijing SkyOcean for a term of 5 years for the purpose of financing the development and construction cost of a parcel of land in Fangshan District, Beijing, the PRC (the “Fangshan Land”). The Fangshan Land was charged to Hengfeng Bank as one of the securities for the repayment of the loan. On 28 February 2020, Beijing SkyOcean was informed that all rights under the loan and the relevant securities were transferred from Hengfeng Bank to 山東省金融資產管理股份有限公司 (Shandong Financial Assets Management Securities Co., Ltd.\*) (“Shandong Assets”).

On 31 December 2020, Beijing SkyOcean was in default of an outstanding principal of approximately RMB2,510 million (equivalent to approximately HK\$2,982.3 million) and the accrued interest of approximately RMB213.7 million (equivalent to approximately HK\$254.0 million).

On 13 August 2020, 北京市第二中級人民法院 (Second Intermediate People’s Court of Beijing\*) (the “Beijing Court”) issued an enforcement judgment, pursuant to which it made an order that, amongst other things, Shandong Assets has the right to enforce the security of the loan by auctioning or selling the Fangshan Land and enjoy priority to the proceeds of the auction or the sale (as the case may be) (“Enforcement Judgement”). 天洋控股集團有限公司 (SkyOcean Holding Group Co., Ltd.\*), being one of the guarantors of the loan (the “Guarantor”) and a related company of the Company, applied to the Beijing Court for an order that the Enforcement Judgment not to be enforced, which was rejected by the Beijing Court on 13 November 2020.

In December 2020, Beijing SkyOcean was informed by Shandong Assets that (i) it intended to enforce the security over the Fangshan Land by putting it on an public auction (the “Auction”) in satisfaction of the loan (the “Enforcement Action”); and (ii) an application has been made to the Beijing Court for a valuation of the Fangshan Land, which shall be relied upon by Shandong Assets as the base price of the Auction. Based on the valuation report dated 2 December 2020 prepared by an independent valuer, the valuation of the Fangshan Land as at 23 October 2020 was approximately RMB2,798.7 million (equivalent to approximately HK\$3,325.3 million) (the “Valuation”).

On 13 January 2021, the Guarantor filed an application to the Court to object to the Valuation (the “Application”), and as informed by the Beijing Court in early March 2021, the Court has appointed 北京房地產估價師和土地估價師與不動產登記代理人協會 (Beijing Real Estate Valuer and Land Valuer and Immovable Asset Registration Agency Association\*) to provide a professional technical assessment (專業技術評審工作) (the “Assessment”) on the merits of the Application. As at the date of this announcement, the result of the Assessment has not been released.

The Company is in the process of obtaining a new loan from an independent financial institution for the repayment of the above loan and is of the view that the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

- 2) On 15 May 2018, 湖南夢東方文化發展有限公司 (Hunan DreamEast Cultural Development Co., Ltd.\*) (“Hunan DreamEast”), an indirect wholly-owned subsidiary of the Company entered into a loan agreement with 北京銀行股份有限公司長沙分行 (Bank of Beijing Co., Ltd. Changsha Branch\*), (“Bank of Beijing”) pursuant to which Bank of Beijing granted a term loan in the amount of RMB320.0 million (equivalent to approximately HK364.8 million) to the Hunan DreamEast for a term of 5 years for the purpose of financing the development and construction cost of a parcel of land in Hengyang, the PRC (the “Hengyang Land”).

Hunan DreamEast was in default of an outstanding principal of approximately RMB263.0 million (equivalent to approximately HK\$312.6 million). Without notice to Hunan DreamEast, Bank of Beijing filed a civil claim claiming the amount of RMB263.1 million against Hunan DreamEast with the 湖南省長沙市中級人民法院 (Intermediate People’s Court of Changsha, Hunan Province\*) on 17 November 2020. Hunan DreamEast was in the process of negotiation with Bank of Beijing on repayment schedule at the end of the reporting period.

The Company is of the view that the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

## **DIVIDEND**

The Board resolved not to recommend any final dividend for the year ended 31 December 2020 (2019: Nil).

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

During the year, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for certain deviations which are summarised below:

### **Code Provisions B.1.2 and C.3.3**

Code Provisions B.1.2 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (“Remuneration Committee”) adopted by the Company are in compliance with Code Provision B.1.2 of the CG Code except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to Executive Directors and senior management under the code provision).

The terms of reference of the Audit Committee adopted by the Company are in compliance with Code Provision C.3.3 of the CG Code except that the Audit Committee (i) shall recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have an effective internal control system; and (iii) can promote (as opposed to ensure under the code provision) the co-ordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.



Further details of the reasons for relevant deviations of the terms of reference will be set out in the Corporate Governance Report contained in the Company's Annual Report for the financial year ended 31 December 2020. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to the relevant terms of reference as adopted and amended by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

### **Code Provision A.2.1**

Code provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

There has been a deviation from this code provision during the period from 27 January 2014 to 2 January 2020 because Mr. Zhou Zheng was appointed as both the Chairman of the Board and the Chief Executive Officer of the Company. The Board considers this arrangement to be appropriate for the Company in view of Mr. Zhou Zheng's extensive experience in the property development industry in the PRC and his in-depth knowledge of the Group's tourist resorts and property development operation and business. The Board believes that a balance of power and authority is adequately ensured by the operation of the Board which comprises experienced and high caliber individuals including 4 independent non-executive directors.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Code of Conduct for Securities Transactions, which is based on the required standards set out in Appendix 10 to the Listing Rules — Model Code for Securities Transactions by Directors of Listed Issuers, as the code of conduct for dealings in the Company's securities by its directors. In response to a specific enquiry by the Company, all directors of the Company have confirmed that they complied with the required standard set out in the Code of Conduct for Securities Transactions during 2020.

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

During 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **REVIEW OF UNAUDITED ANNUAL RESULTS**

The auditing process for the annual results for the year ended 31 December 2020 has not been completed as at the date of this announcement. The unaudited annual results contained herein have not been agreed with the Auditor as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and are therefore subject to potential adjustments and finalisation pending the completion of the audit by the Auditor. An announcement relating to the 2020 Annual Results which is to be agreed with the Auditor, and the material differences (if any) as compared to the unaudited annual results contained herein, is expected to be published by 30 April 2021 when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

## **DELAY IN PUBLICATION OF THE 2020 ANNUAL RESULTS**

Reference is made to the announcement of the Company dated 29 March 2021 on the delay in publication of its preliminary results in respect of the financial year ended 31 December 2020 (the “2020 Annual Results”). The Board would like to elaborate the reasons for the delay as follows:

### **Indebtedness of the Group**

As part of the audit process, Mazars CPA Limited (the “Auditor”), the auditor of the Company, shall issue audit confirmation letters (which shall include the authorisation from the Group stamped with the company seal and financial chop of the relevant member of the Group) to the banks and creditors of the Group to confirm the monies due to the creditors and monies frozen by the banks in accordance with verdicts issued by the courts. A wholly-owned subsidiary of the Company (the “Subsidiary”) was unable to authorise the Auditor to issue the audit confirmation letters as its company seal and financial chop were kept by a creditor of the Subsidiary (the “Creditor”) as security for the relevant loan pursuant to an agreement dated 28 June 2020 between the Subsidiary and the Creditor. The Creditor refused to cooperate and arrange stamping of the company seal and financial chop of the Subsidiary despite repeated communications with the Creditor between February 2021 and March 2021. As a result, the indebtedness information of the Group could not be finalised by 31 March 2021 and hence, the Company could not issue the 2020 Annual Results on time. After further discussion and negotiation with the Creditor, it finally agreed to arrange stamping of the company seal and financial chop of the Subsidiary on the authorisation letter(s) of the Subsidiary on 30 March 2021. As at the date of this announcement, the audit confirmation letters were delivered to the creditors and banks of the Group, and subject to the confirmation from the creditors and banks and follow-up audit work to be carried out by the Auditor, it is expected that the indebtedness information could be finalised by the end of April 2021.

## **Resignation of senior personnel of the Group**

In addition, the preparation of the consolidated financial statements of the Group were prolonged due to resignation of certain senior personnel of the Group who were responsible for the financial operations of the Group in the fourth quarter of 2020 and first quarter of 2021, including the Chief Financial Officer, Assistant President, General Manager of the Finance Department, the Tax Director, the Financial Controllers and the Group Accounting Supervisors.

While the Company was able to arrange some junior staff to temporarily take up roles and responsibilities of some of the resigned senior personnel to minimise the impact on the Company's operations brought by the resignation of them, some positions still remain vacant as at the date of this announcement as the Company is unable to identify suitable candidates to fill such vacancies.

As it took time for the junior staff to familiarise with the duties of the resigned senior personnel, the preparation of the consolidated financial statements of the Group was delayed. It also took longer for the junior staff to respond to the queries from the Auditor, during the audit process, in relation to the draft consolidated financial statements of the Group and financial statements of each member of the Group.

## **Valuation of certain properties of the Group**

In early February 2021, in response to a request from the Auditor to arrange valuation of the Group's completed properties for sale, properties under development for sale and land held for sale (the "Additional Valuation") for assessment of any potential impairment losses on the aforesaid properties of the Group, the Company requested CHFT Advisory and Appraisal (the "Valuer") to carry out the Additional Valuation. However, due to the resignation of a considerable number of staff of the Group from different departments (including the senior personnel mentioned above), the information requested by the Valuer was not timely handled/responded by the temporary replacement junior staff of the Group until early March 2021. On 10 March 2021, the Company provided the remaining outstanding information to the Valuer. As the time taken for the Valuer on liaising with the Company to obtain information on the properties and the land was prolonged, there was a delay in conducting the valuation, and as such, the earliest time that the Valuer could provide the advanced draft valuation report for the Auditor's review was 31 March 2021. As at the date of this announcement, the Additional Valuation has been completed.

As mentioned above, the indebtedness information is expected to be finalised by the end of April 2021 and the Additional Valuation has been completed as at the date of this announcement, the Company therefore expects to publish the 2020 Annual Results by 30 April 2021.

## **INDEPENDENT AUDITOR’S REPORT**

### **Potential Disclaimer of Opinion**

The Auditor, is in the process of the audit of the Company’s consolidated financial statements for the year ended 31 December 2020 and the audit process is not completed yet as at the date of this announcement. The Group’s financial conditions, including the matters as described in note 1.2 to the unaudited consolidated financial statements contained in this announcement (see page 6 to page 7), indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern. Because of the multiple uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements of the Company, management of the Company expects that it may not be possible for the Company’s auditor to form an opinion on the consolidated financial statements of the Company for the year ended 31 December 2020.

Please also refer to pages 7 and 8 of this announcement in relation to the actions taken and/or to be taken by the Group to address the doubts about the Group’s ability to continue as a going concern.

### **SUSPENSION OF TRADING**

Trading in the shares of the Company (“Shares”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) has been suspended with effect from 9:00 a.m. on 1 April 2021, and is currently expected to remain suspended until the publication by the Company of an announcement containing the 2020 Annual Results which have been agreed with the Auditor, which is expected to be no later than 30 April 2021.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.dreameast.com](http://www.dreameast.com)). The 2020 Annual Report of the Company containing the information required by the Listing Rules will be dispatched to the shareholders and made available on the same websites in due course.

**The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

On behalf of the Board  
**DREAMEAST GROUP LIMITED**  
**Zhou Jin**  
*Chairman*

Hong Kong, 15 April 2021

*As at the date of this announcement, the Board comprises Ms. Zhou Jin (Chairman) and Mr. Yang Lei being the executive Directors, and Dr. Chen Guanglei, Dr. Meng Xiaosu, Mr. Yang Buting and Mr. Zhao Daxin being the independent non-executive Directors.*

- \* *The English translation of the Chinese name of the relevant entity included in this announcement is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.*