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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

This announcement, for which the directors (the "Directors") of China Digital Culture (Group) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Revenue	4	**181,351**	290,231
Cost of services rendered		**(129,758)**	(196,996)
Gross profit		**51,593**	93,235
Other income	5	**77,233**	7,907
Selling and distribution costs		**(2,823)**	(5,350)
Administrative and other expenses		**(751,413)**	(147,231)
Finance costs	6	**(34,127)**	(33,743)
Fair value change on contingent consideration		**238,649**	(11,385)
Share of results of an associate		**(891)**	(761)
Share of results of a joint venture		**(1)**	499
Loss before taxation	6	**(421,780)**	(96,829)
Income tax	7	**19,308**	(7,592)
Loss for the year		**(402,472)**	(104,421)
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss			
Fair value changes of financial assets at fair value through other comprehensive income		**1,642**	(20,031)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(4,251)**	(5,426)
Foreign currency translation reserve realised on disposal of subsidiaries		**43**	–
Share of other comprehensive loss of a joint venture		**53**	(171)
		(2,513)	(25,628)
Total comprehensive loss for the year		**(404,985)**	(130,049)
Loss attributable to:			
Equity holders of the Company		**(400,485)**	(101,728)
Non-controlling interests		**(1,987)**	(2,693)
		(402,472)	(104,421)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(402,909)**	(127,420)
Non-controlling interests		**(2,076)**	(2,629)
		(404,985)	(130,049)
Loss per share	9		
Basic		**HK(20.39) cents**	HK(5.243) cents
Diluted		**HK(20.39) cents**	HK(5.243) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	**2019 HK$'000 (Unaudited)**	2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**1,977**	8,742
Right-of-use assets		**5,149**	–
Intangible assets	*10*	**266,857**	288,069
Goodwill	*11*	**145,152**	641,087
Interest in an associate		**591**	1,495
Interest in joint ventures		**5,574**	5,627
Financial assets at fair value through other comprehensive income		**62,148**	60,506
Deposits for acquisition of unlisted investments		**–**	2,340
Deposit for film production		**99,555**	99,628
Loans to and due from joint ventures		**–**	–
Prepayments	*12*	**54,135**	74,739
		641,138	1,182,233
Current assets			
Inventories		**17,022**	121,490
Derivative financial assets		**–**	7,143
Financial assets at fair value through profit or loss		**1,091**	19,503
Investment in TV-show		**52,698**	–
Accounts and other receivables	*12*	**105,553**	97,930
Bank balances and cash		**32,568**	78,776
Tax receivable		**573**	–
Assets of disposal group classified as held for sale	*13*	**8,763**	7,271
		218,268	332,113
Current liabilities			
Accounts and other payables		**55,465**	54,461
Interest-bearing borrowings		**–**	4,538
Lease liabilities		**3,127**	–
Tax payable		**16,561**	18,346
Contingent consideration-convertible bonds		**–**	212,314
Liabilities of disposal group classified as held for sale	*13*	**4,226**	1,067
		79,379	290,726
Net current assets		**138,889**	41,387
Total assets less current liabilities		**780,027**	1,223,620
Non-current liabilities			
Convertible bonds		**401,834**	397,439
Lease liabilities		**2,142**	–
Deferred tax liabilities		**31,393**	52,660
		435,369	450,099
NET ASSETS		**344,658**	773,521
Capital and reserves			
Share capital	*14*	**80,807**	77,607
Reserves		**269,569**	694,666
Equity attributable to equity holders of the Company		**350,376**	772,273
Non-controlling interests		**(5,718)**	1,248
TOTAL EQUITY		**344,658**	773,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

2. STATEMENT OF COMPLIANCE

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

3. PRINCIPAL ACCOUNTING POLICIES

Application Of New And Amendments To Hong Kong Financial Reporting Standards ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date.

Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient separate non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease. Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Leasehold land and building
For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits
Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities
At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications
The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation
For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Definition of a lease
The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$10,267,000 and right-of-use assets of HK$10,267,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 2.15%.

	HK$'000 Unaudited
Operating lease commitments disclosed as at 31 December 2018	13,713
Less: Recognition exemption – short-term leases	(3,081)
	10,632
Lease liabilities discounted at relevant incremental borrowing rates	(365)
Lease liabilities at 1 January 2019	10,267
Analysed as	
Current	3,401
Non-current	6,866
	10,267

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018 HK$'000 (Audited)	**Adjustments HK$'000 (Unaudited)**	**Carrying amount under HKFRS 16 at 1 January 2019 HK$'000 (Unaudited)**
Non-current assets			
Right-of-use assets	–	**10,267**	**10,267**
Current liabilities			
Lease liabilities	–	**(3,401)**	**(3,401)**
Non-current liabilities			
Lease liabilities	–	**(6,866)**	**(6,866)**

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9,HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

The directors of the Company consider that the application of all new and amendments to HKFRSs and HKASs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in foreseeable future.

4. REVENUE

An analysis of the Group's revenue during the year is as follows:

	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Entertainment		
– Licensing of music content	**3,579**	8,324
– Consultancy service income	**10,089**	28,527
– Sale of entertainment content and products	**103,915**	144,890
– Event production and online broadcasting income	**–**	37,091
– Managing eSports teams and eSports broadcasters	**15,659**	8,084
– Celebrity and artists training course agency business	**11,182**	8,434
Sports		
– Licensing of sports events content	**32,694**	42,518
Theme Park		
– Theme park operation service income	**4,233**	12,363
Total revenue	**181,351**	290,231

5. OTHER INCOME

	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Bank interest income	**115**	272
Loan interest income	**1,039**	–
Fair value gain on financial assets at fair value through profit or loss	**–**	664
Gain on lapse of convertible bond	**12,360**	–
Gain on disposal of right-of-use assets	**78**	–
Gain on disposal of subsidiaries	**60,505**	–
Sundry income	**3,136**	6,971
	77,233	7,907

Note:

(i) A director agreed to waive the amount due from the Group.

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	2019 **HK$'000** **(Unaudited)**	2018 HK$'000 (Audited)
Finance costs		
Interest on convertible bonds	**33,786**	32,908
Interest on bank loans	**84**	835
Interest on lease liabilities	**257**	–
	34,127	33,743
Other items		
Employee benefits expenses (including directors' remuneration)		
Salaries and allowances	**21,892**	28,590
Contribution to defined contribution retirement schemes	**2,453**	2,785
Equity-settled share-based payment	**4,654**	3,932
	28,999	35,307
Auditor's remuneration	**2,400**	2,200
Amortisation of intangible assets		
– included in cost of services rendered	**4,415**	4,415
– included in administrative and other expenses	**18,887**	10,919
Exchange loss, net	**17**	96
Depreciation of property, plant and equipment	**2,644**	2,699
Depreciation of right-of-use assets	**4,585**	–
Expenses related to short-term leases	**1,861**	–
Operating lease payments on premises	**–**	7,984
Provision for doubtful debt – accounts receivable	**21,823**	3,243
Allowance for doubtful debts on loans to and due from joint ventures	**1,185**	2,767
Impairment losses on intangible asset	**78,960**	7,868
Impairment loss on goodwill	**495,935**	18,545
Impairment loss on deposits of acquisition of a subsidiary	**–**	800
Written-down of inventories	**39,000**	25,175
Fair value loss on financial assets at fair value through profit or loss	**10,807**	–

7. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% and 8.25% (2018: 16.5% and 8.25%) on the estimated assessable profits arising in Hong Kong during the year.

PRC Enterprise Income Tax ("EIT") has been provided at the rate of 25% (2018: 25%) on the estimated assessable profits of the PRC subsidiaries during the year.

The ROC Income Tax is calculated at 17% on the estimated assessable profits of the Taiwan subsidiaries during the year.

	2019	2018
	HK$'000	HK$'000
Hong Kong Profits Tax		
Current year provision	**2,145**	3,221
(Over)/Underprovision in prior year	**(155)**	849
EIT		
Current year provision	**171**	3,641
(Over)/Underprovision in prior year	**(201)**	1,235
Deferred tax		
In respect of current year	**(21,268)**	(1,354)
Total tax (credit)/expense for the year	**(19,308)**	7,592

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate.

8. DIVIDENDS

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

9. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss attributable to equity holders of the Company and the weighted average number of the Company's ordinary shares in issue during the year as follows:

	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Loss attributable to equity holders of the Company and used to determine basic and diluted loss per share	**(400,485)**	(101,728)

	2019	2018
	No. of shares	No. of shares
	'000	'000
	(Unaudited)	(Audited)
Issued ordinary shares at 1 January	**1,964,211**	1,940,176
Effect of shares issued	**–**	–
Weighted average number of ordinary shares for basic earnings per share	**1,964,211**	1,940,176

	(Unaudited)	(Audited)
Loss per share		
Basic	**HK(20.39) cents**	HK(5.243) cents
Diluted	**HK(20.39) cents**	HK(5.243) cents

Note:

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

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

10. INTANGIBLE ASSETS

	Software license right HK$'000	Broadway musical license HK$'000	Streaming platform HK$'000	Usage right of electric game HK$'000	Usage right of movie database HK$'000	Image rights in eSports field HK$'000	Exclusive operation rights of theme park HK$'000	Agency license HK$'000	Trade mark HK$'000	Music license HK$'000	Total HK$'000
Reconcilliation of carrying amount											
– year ended 31 December 2018											
At the beginning of reporting period (Audited)	–	–	–	–	35,320	8,292	169,355	37,167	14,444	11,714	276,292
Addition	–	–	–	35,000	–	–	–	–	–	–	35,000
Amortisation	–	–	–	(274)	(4,415)	(1,864)	–	(4,028)	(2,101)	(2,652)	(15,334)
Impairment	–	–	–	–	–	(6,120)	–	–	–	(1,748)	(7,868)
Effect on foreign currency exchange different	–	–	–	(12)	–	(9)	–	–	–	–	(21)
At end of reporting period (Audited)	–	–	–	34,714	30,905	299	169,355	33,139	12,343	7,314	288,069
Reconcilliation of carrying amount											
– year ended 31 December 2019											
At the beginning of reporting period (Audited)	–	–	–	34,714	30,905	299	169,355	33,139	12,343	7,314	288,069
Addition	7,800	50,000	23,400		–	–	–	–	–	–	81,200
Amortisation	(600)	(5,376)	–	(3,488)	(4,415)	(103)	–	(4,029)	(3,151)	(2,140)	(23,302)
Impairment	–	–	–	–	–	–	(78,960)	–	–	–	(78,960)
Effect on foreign currency exchange different	–	413	–	(562)	–	(1)	–	–	–	–	(150)
At end of reporting period (Unaudited)	7,200	45,037	23,400	30,664	26,490	195	90,395	29,110	9,192	5,174	266,857
At 31 December 2018											
Cost	–	–	–	35,000	44,150	23,228	169,355	40,295	15,757	13,261	341,046
Accumulated amortisation	–	–	–	(286)	(13,245)	(10,667)	–	(7,156)	(3,414)	(4,199)	(38,967)
Impairment	–	–	–			(12,262)				(1,748)	(14,010)
Net carrying amount (Audited)	–	–	–	34,714	30,905	299	169,355	33,139	12,343	7,314	288,069
At 31 December 2019											
Cost	7,800	50,000	23,400	35,000	44,150	23,228	169,355	40,295	15,757	13,261	422,246
Accumulated amortisation	(600)	(4,963)	–	(4,336)	(17,660)	(10,771)	–	(11,185)	(6,565)	(6,339)	(62,419)
Impairment	–	–	–	–	–	(12,262)	(78,960)	–	–	(1,748)	(92,970)
Net carrying amount (Unaudited)	7,200	45,037	23,400	30,664	26,490	195	90,395	29,110	9,192	5,174	266,857

11. GOODWILL

The amounts of goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position arising from the acquisition of subsidiaries are as follows:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Reconciliation of carrying amount		
At beginning of reporting period	**641,087**	659,632
Impairment	**(495,935)**	(18,545)
At end of reporting period	**145,152**	641,087
At 31 December		
Cost	**690,632**	690,632
Accumulated impairment losses	**(545,480)**	(49,545)
	145,152	641,087

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

The carrying amount of goodwill was allocated to the Group's cash-generating units (the "CGUs") identified according to the country of operations and business segments as follows for impairment test:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Entertainment		
– Music content	**–**	–
– Film and TV series production and distribution	**4,386**	94,695
– Television-related content	**3,981**	21,827
– Event production and online broadcasting	**20,672**	33,522
– Managing eSports teams and eSports broadcasters	**17,886**	35,703
– Celebrity and artists training course agency business	**44,821**	44,851
Sports		
– Sports events content	**1,924**	1,924
– Marketing and promotional services	**51,482**	103,711
Theme Park		
– Theme park operation services	**–**	304,854
	145,152	641,087

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

Except the goodwill related to the music content, the recoverable amounts of the CGUs exceeded their carrying amounts based on value-in-use calculations. Accordingly, impairment on goodwill with amount HK$495,935,000 (2018: 18,545,000) was recognised during the year.

12. ACCOUNTS AND OTHER RECEIVABLES

	Note	**2019** **HK$'000** **(Unaudited)**	2018 HK$'000 (Audited)
Accounts receivable			
From third parties		**96,290**	90,161
Allowance for doubtful debts	*(i)*	**(23,768)**	(6,345)
	(i)	**72,522**	83,816
Prepayments and other receivables – current			
Deposits, prepayments and other receivables		**28,621**	8,978
Prepayments to licensors and service providers		**1,778**	3,439
Due from directors of subsidiaries of the Company	*(ii)*	**1,571**	1,647
Due from directors	*(iii)*	**1,061**	50
		33,031	14,114
		105,553	97,930
Prepayments – non-current			
Prepayments-use of the Likeness of artists for the Group's E-sports team		**4,135**	12,339
Prepayment-contract costs for production of TV series	*(iv)*	**–**	62,400
Prepayment of musical performances' contract	*(v)*	**50,000**	–
		54,135	74,739
		159,688	172,669

Notes:

(i) Accounts receivable

In general, the Group allows a credit period from 30 days to 90 days to its customers upon presentation of invoices. Included in the Group's accounts receivable balances are debtors with carrying amounts of HK$65,822,000 (2018: HK$26,916,000), which were past due at the end of the reporting period but not impaired as there has not been any significant change in credit quality and part of which has been subsequently settled. These relate to several customers for whom there is no recent history of default.

At the end of the reporting period, the ageing analysis of the accounts receivable (net of allowance for doubtful debts) by invoice date is as follows:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
0-30 days	**6,700**	56,900
31-90 days	**6,215**	7,170
91-365 days	**43,390**	19,746
Over 365 days	**16,217**	–
	72,522	83,816

At the end of the reporting period, the ageing analysis of the accounts receivable by overdue date that are neither individually nor collectively considered to be impaired is as follows:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Current	**6,700**	59,053
Less than 1 month past due	**655**	7,170
1 month to 3 months past due	**5,560**	19,746
3 months to 12 months past due	**43,390**	–
Over 1 year past due	**16,217**	–
	65,822	26,916
	72,532	85,969

Receivables that were neither past due nor impaired relate to several customers for whom there was no history of default.

Movement in allowance for doubtful debts is as follows:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
At beginning of reporting period (1 Jan 2018 amount has been restated)	**6,345**	6,940
Increase in allowance	**21,823**	3,243
Amounts written off	**(4,400)**	(3,838)
At end of reporting period	**23,768**	6,345

(ii) Due from directors of subsidiaries of the Company

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

(iii) Due from directors

The amounts due from directors are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due from directors approximates their fair value. Details of the amounts due from directors are as follows:

Name of director	Maximum balance during the year HK$'000 (Unaudited)	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Hsu Tung Chi, Chris	1,012	**1,012**	–
Hsu Tung Sheng (resigned on 17 May 2019)	50	**49**	50
		1,061	50

(iv) Prepayment-contract costs for production of TV series

On 13 March 2018, the Group signed an agreement with an independent third party to produce a series of TV shows called " 周游記 " starring by Mr. Jay Chou (周杰倫) and paid a production cost of approximately HK$64,000,000. Since the production of TV shows still undergoing, the production cost has not been utilized nor transferred to the assets of the Group. The TV shows completed and launched in the first quarter of 2020 and all the amount transferred to the investment in TV-show.

(v) Prepayments of musical performances contract

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

13. DISPOSAL GROUP HELD FOR SALE

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

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

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

	HK$'000 (Unaudited)
Property, plant and equipment	4,639
Right-of-use assets	3,378
Inventories	76
Accounts and other receivables	574
Bank balances and cash	96
Total assets of disposal company classifies as held for sale	8,763
Accounts and other payables	824
Lease liabilities	3,402
Total liabilities of disposal company classifies as held for sale	4,226

The disposal is not completed at the announcement date.

14. SHARE CAPITAL

	Note	**Number of ordinary shares** '000	**Nominal value** HK$'000
Authorised:			
At 1 January 2018, at 31 December 2018, 1 January 2019 and 31 December 2019, ordinary shares of HK$0.04 each		5,000,000	200,000
Issued and fully paid:			
At 1 January 2018, 31 December 2018 and 1 January 2019 ordinary shares of HK$0.04 each (Audited)		1,940,176	77,607
Issue of shares – under subscription	*(a)*	80,000	3,200
At 31 December 2019, ordinary shares of HK$0.04 each (Unaudited)		2,020,176	80,807

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

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

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

During the year 31 December 2019, 1,150,000 ordinary shares with amount HK$156,000 were repurchased and no shares have been cancelled during the year.

15. DISPOSAL OF SUBSIDIARIES

On 3 April 2019, the Group disposed entire equity interests in Star Summer Company Limited and its subsidiaries ("Star Summer Group") to an independent third party with cash consideration of HK$70,000,000 on 3 April 2019.

The cash flow and the carrying amount of the net assets of Star Summer Group sold at the date of disposal were as follows:

	3 April 2019 HK$'000 (Unaudited)
Property, plant and equipment	**231**
Accounts and other receivables	**14,830**
Bank balances and cash	**159**
Accounts and other payables	**(420)**
Tax payable	**(415)**
Net assets disposed of	**14,385**
Non-controlling interests	**(4,890)**
Less: consideration	**(70,000)**
Gain on disposal of subsidiaries	**60,505**
Cash consideration received	**70,000**
Bank balances and cash disposal of	**(159)**
Net cash inflow arising on disposal	**69,841**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2019, the Company recorded revenue of approximately HK$181,351,000 (2018: HK$290,231,000) and a loss before taxation of approximately HK$421,780,000 (2018: loss before taxation of HK$96,829,000).

The decrease in revenue is primarily attributable to poor market sentiment and cautious spending resulting from political unrest in Hong Kong coupled with the economic slowdown in the PRC during 2019. The Company also recorded impairment of goodwill and intangible assets for a total of HK$574,895,000 as compared to HK$26,413,000 for the previous financial year due to lower revenue in 2019 and the economic impact stemming from the global COVID-19 pandemic.

SPORTS SEGMENT

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

During the year ended 31 December 2019, the sports segment recorded revenue of approximately HK$32,694,000 (2018: HK$42,518,000) and a loss before taxation and unallocated income and expenses of approximately HK$53,403,000 (2018: profit before taxation and unallocated income and expenses HK$14,949,000). The decrease in revenue is primarily attributable to political unrest in Hong Kong, general economic slowdown in the PRC and increased competition during 2019. The sports segment recorded impairment of goodwill of approximately HK$52,229,000 (2018: Nil).

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

ENTERTAINMENT SEGMENT

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

During the year ended 31 December 2019, the entertainment segment recorded revenue of approximately HK$137,546,000 (2018: HK$235,350,000) and a loss before taxation and unallocated income and expenses of approximately HK$190,330,000 (2018: HK$60,170,000). The decrease in revenue was primarily due to poor market sentiment and cautious spending in the entertainment industry resulting from political unrest in Hong Kong and the general economic slowdown in the PRC during 2019. The entertainment segment also recorded impairment of goodwill of approximately HK$138,852,000 (2018: HK$18,545,000).

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

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

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

THEME PARK SEGMENT

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

During the year ended 31 December 2019, the theme park segment recorded a revenue of approximately HK$11,111,000 (2018: HK$12,363,000) and a loss before taxation and unallocated income and expenses of approximately HK$127,558,000 (2018: HK$737,000). The decrease in revenue was primarily attributable to the decrease in consultancy revenue. The increase in loss before taxation and unallocated income and expenses from 2018 to 2019 was primarily due to the increase in impairment of goodwill and intangible assets for a total of approximately HK$383,814,000.

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

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group recorded revenue of approximately HK$181,351,000, representing a decrease of approximately 38% from approximately HK$290,231,000 for the previous financial year. Cost of services rendered for 2019 was approximately HK$129,758,000 which represented a decrease of approximately 34% from approximately HK$196,996,000 in 2018. Gross profit margin in 2019 was approximately 28% which was lower than the gross profit margin of approximately 32% for the previous financial year.

During the year ended 31 December 2019, administrative expenses incurred by the Group were approximately HK$751,413,000 (2018: HK$147,231,000). The increase in administrative expenses was primarily due to the increase in written-down inventories and impairment of goodwill and intangible assets.

During the year ended 31 December 2019, the Group recorded approximately HK$2,823,000 (2018: HK$5,350,000) in selling and distribution costs. The decrease in selling and distribution costs was primarily due to decrease in revenue in 2019.

During the year ended 31 December 2019, the Group recorded approximately HK$34,127,000 (2018: HK$33,743,000) in finance costs. The finance costs was primarily due to the interest on convertible bonds issued in 2017.

As a result of the aforesaid figures, the Group reported a loss attributable to equity holders of the Company for the year ended 31 December 2019 of approximately HK$400,485,000 (2018: HK$101,728,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had current assets of approximately HK$218,268,000 (2018: HK$332,113,000) and current liabilities of approximately HK$79,379,000 (2018: HK$290,726,000). The current assets were comprised mainly of bank balances and cash of approximately HK$32,568,000 (2018: HK$78,776,000), inventories of approximately HK$17,022,000 (2018: HK$121,490,000) and accounts and other receivables of approximately HK$105,553,000 (2018: HK$97,930,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK$55,465,000 (2018: HK$54,461,000) and tax payable of approximately HK$16,561,000 (2018: HK$18,346,000). As at 31 December 2019, the Group had a current ratio of approximately 2.75 as compared to that of approximately of 1.14 as at 31 December 2018.

Most of the business transactions, assets and liabilities of the Group are denominated in Hong Kong Dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong Dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2019, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

FUND RAISING ACTIVITIES

THE CONVERTIBLE BONDS

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

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

On 1 April 2019 and 16 May 2019, the Company entered into the supplemental deed and the second supplement deed respectively with the Subscriber in relation to the proposed amendments, pursuant to which, the Company (i) shall pay the interest on a quarterly basis; and (ii) shall be entitled to redeem the Convertible Bonds in whole or in part at 100% of the principal amount of the Convertible Bonds prior to the maturity date (18 June 2022). The proposed amendments were not approved by the Shareholders at the special general meeting held on 14 June 2019.

As at 31 December 2019, the net proceeds (after deduction of the relevant expenses) from the issue of the Convertible Bonds amounted to approximately HK$411.7 million. During the year ended 31 December 2019, the Group recorded revenue of approximately HK$103,915,000 from the sale of entertainment content and products, representing a year-on-year decrease of approximately 28%, and accounting for approximately 57% of the Group's total revenue for the year ended 31 December 2019. The sale of entertainment content and products is the Group's major business. During the year ended 31 December 2019, the Group recorded revenue of approximately HK$15,659,000 from managing E-sports teams and E-sports broadcaster and approximately HK$11,182,000 from celebrity and artists training course agency business.

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

		Planned use of proceeds stated in the circular dated 13 March 2017 HK$'million	Revised allocation of the net proceeds HK$'million	Unutilised proceeds as at 31 December 2018 HK$'million	Actual use of proceeds up to 31 December 2019 HK$'million	Unutilised proceeds as at 31 December 2019 HK$'million
(i)	Expanding E-sports and webcast celebrity operations, including the investment in the newly acquired Shanghai Xin Ke Culture Media Company Limited and Jieyi Wenchuang Company Limited, and the joint venture investment in Yujia Yule Media Company Limited and Kunshan Jieyi Culture Communication Company Limited	180.0	149.0	52.1	52.1	–
(ii)	Promotion and marketing in relation to the Group's athlete management business	20.0	20.0	14.2	14.2	–
(iii)	Development of the entertainment segment through investment in movies and television shows	100.0	134.6	–	–	–
(iv)	Acquisition of sports licenses	50.0	52.8	–	–	–
(v)	General working capital of the Group	61.7	55.3	–	–	–
		411.7	411.7	66.8	66.8	–

GEARING RATIO

The gearing ratio (which is computed by consolidated borrowings divided by consolidated total equity) was 0% (31 December 2018: 0.6%). As at 31 December 2019, total borrowings of the Group amounted to Nil (31 December 2018: HK$4,538,000).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(i) Disposal of a subsidiary

On 24 December 2018, Summer Eagle Limited ("Summer Eagle"), a wholly owned subsidiary of the Company, entered into an agreement with Richfield International Limited ("Richfield International") pursuant to which Summer Eagle has agreed to sell and Richfield International has agreed to purchase 100% equity interests in Star Summer for a consideration of HK$70,000,000. The disposal of 100% equity interests in Star Summer has been completed on 3 April 2019. Reference is made to the announcements of the company dated 24 December 2018 and 19 March 2019. On 7 January 2019, Summer Eagle entered into an agreement with Hollyview International Limited ("Hollyview International") pursuant to which Summer Eagle had agreed to sell and Hollyview International had agreed to purchase 100% equity interests in Digital Cultural and Creative Company Limited ("Digital Cultural") for a consideration of HK$80,000,000. On 27 June 2019, Summer Eagle and Hollyview International entered into a deed of termination in relation to the disposal of 100% equity interests in Digital Cultural, pursuant to which the both parties had agreed to terminate the above-mentioned agreement with effect from 27 June 2019 and to release and both discharge each other from their respective duties, obligations and liabilities as set out in the agreement dated 7 January 2019. Reference is made to the announcements of the Company dated 7 January 2019, 25 April 2019,16 May 2019 and 27 June 2019.

(ii) Acquisition of interest in a target company

Reference is made to the announcement of the Company dated 16 May 2019, the Company entered into an agreement (the "Agreement") with PhyNet Technology Co., Limited ("PhyNet") on 11 June 2019 pursuant to which the Company has conditionally agreed to purchase, and PhyNet has conditionally agreed to sell, 10% of issued share capital of One Pigeon Co., Ltd., at a consideration of HK$17,600,000. The Agreement was subsequently terminated on 1 August 2019 with both parties agreed to enter into a deed of termination. Please refer to the announcement of the Company dated 1 August 2019 for more details.

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

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

FOREIGN EXCHANGE RISK

The Group's exposure to foreign currency risk mainly arises from the fluctuation of RMB and USD against the functional currencies of the Group. Most of the purchases and sales are denominated and settled in foreign currencies, mainly HKD, RMB and USD. As RMB and USD have been volatile during the years ended 31 December 2018 and 2019, the financial performance of the Company may be affected by the fluctuation of the foreign exchange rate in the future. The Group does not have a foreign exchange hedging policy but management will continue to closely monitor exchange rate fluctuations and will take appropriate measures to keep foreign exchange risk exposure to a minimum. The Group does not use any financial instruments for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (2018: Nil).

EVENTS AFTER REPORTING PERIOD

On 14 January 2016, the Company completed the acquisition of Dream World. Upon completion, Dream World became a wholly-owned subsidiary of the Company. The aggregate consideration of the acquisition shall be up to HK$587,250,000 to be paid by the Company to Earn Wise Limited, Best Million Holdings Limited and Ease Wing Limited (collectively as the "Vendors") by (i) cash payment of HK$150,000,000; (ii) the issue of consideration shares for a total amount of HK$77,250,000; and (iii) subject to the fulfillment of profit guarantee requirements and progress of construction of the project, the issue of convertible bonds in the principal amount of up to HK$360,000,000 by the Company. For further details, please refer to the circular of the Company dated 28 October 2015 (the "Circular"). Unless the context otherwise requires, the terms used herein shall have the same meanings as those defined in the Circular. As of 31 December 2019, only Convertible Bonds in the principal amount of HK$120,000,000 with conversion rights to convert into one Conversion Share at the initial conversion price of HK$0.48 per Conversion Share has been issued, as the Purchaser was only satisfied with the progress of the stage of construction of the Project for the financial year of 2015.

Referring to (i) the Acquisition Agreement dated 6 July 2015; (ii) the Supplemental Agreement dated 22 July 2015; (iii) the confirmation letter dated 28 August 2015, (iv) the Second Supplemental Agreement dated 28 August 2015 and (v) the Third Supplemental Agreement dated 18 December 2015 (collectively, the "Acquisition Agreements"), the board of Directors have decided to request the refund of Consideration Shares and CB Consideration due to the fact that Project Completion was not able to take place on 31 December 2019. Based on the Acquisition Agreements, the Company has the option (in its sole and absolute discretion) for the refund of the whole of the total number of Consideration Shares received by the Vendors or their nominee(s) and any portion of the CB Consideration paid by the Company to the Vendors or their nominee(s). As of the date of this announcement, the Company is still negotiating with the Vendors for a settlement plan in respect of the return of Consideration Shares and CB Consideration. Further announcement and updates will be made in this respect as and when appropriate in accordance with the GEM Listing Rules.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had 86 (2018: 133) employees. Employee costs for 2019, excluding Directors' emoluments, amounted to approximately HK$24,345,000 (2018: HK$30,270,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the positions offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

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

FULFILLMENT OF PROFIT GUARANTEE

On 30 November 2016, the Company entered into an acquisition agreement with Marvel Paramount International Limited, an independent third party, in relation to the acquisition of 100% of the issued share capital of Vector Vision Enterprises Limited ("Vector Vision", together with its subsidiaries, "Vector Vision Group"), at a cash consideration of HK$80,000,000. The vendor guaranteed to the Group that the net profit for Vector Vision Group for the year ended 31 December 2019 will not be less than HK$9,000,000 (the "2019 Vector Vision Profit Guarantee"). Please refer to the announcements of the Company dated 30 November 2016, 21 December 2016, 28 December 2016, 16 January 2017, 31 March 2017 and 11 April 2017 for more details. The Board confirmed that based on the audited financial information of Vector Vision Group for the year ended 31 December 2019, the Vector Vision Group recorded a profit after tax of approximately HK$9,116,000. Therefore, the 2019 Vector Vision Profit Guarantee requirement has been met.

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

(a) Background information

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

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

(b) Particulars of major parties involved

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

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

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

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

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

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

(c) Financial information of Liheng

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

(d) Reasons for using the Contractual Arrangements

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

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

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

(e) Risks relating to the Contractual Arrangements

(1) Regulatory licenses and permits

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

(2) *Media law developments in the PRC*

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

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

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

(3) *PRC corporate governance*

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

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

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

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

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

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

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

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

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

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

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

(f) Material change in relation to the Contractual Arrangements

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

(g) Unwinding the Contractual Arrangements

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

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code Provision") as set out in Appendix 15 of the GEM Listing rules. In the opinion of the Directors, the Company has complied with the Code Provision throughout the year ended 31 December 2019, except for the following deviations: Code Provision A.2.1 stipulates the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Nonetheless, the Company has appointed Mr. Hsu Tung Chi as both its chairman and chief executive officer of the Company ("CEO"), following the resignation of ex-chairman of the Board on 17 May 2019. The Directors consider that vesting the roles of the chairman of the Board and the CEO in Mr. Hsu Tung Chi is beneficial to the management and business development of the Group and will provide a strong and consistent leadership to the Group. With effect from 23 December 2019, Mr. Hsu Tung Chi ceased to be the CEO and Mr. Jiang Chao was appointed as the CEO. Save as disclosed, the Directors consider that for the year ended 31 December 2019 and thereafter to the date of this announcement, the Company has applied the principles and complied with all the applicable code provisions set out in the corporate governance code.

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

During the year ended 31 December 2019, the Company repurchased 1,150,000 shares of its own ordinary shares through the Stock Exchange at total consideration of approximately HK$155,510. Details of the share repurchase by the Company are included in Note 14 of these unaudited consolidated financial statement. Save as those disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interests in any of the Company's listed securities.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Company has confirmed the Directors' compliance with such code of conduct and the required standard of dealings regarding securities transactions for the year ended 31 December 2019 and thereafter to the date of this announcement.

FINAL DIVIDEND

The Board did not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") with written terms of reference in compliance with the Code. The principal duties of the Audit Committee include the review of the Group's financial controls, risk management and internal control systems, and financial and accounting policies and practices. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin. Mr. Kwok Chi Sun is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the year ended 31 December 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Company has been advised by the Company's auditors, Elite Partners CPA Limited, that the auditing process for the annual results for the year ended 31 December 2019 has not been completed due to travel restrictions in force in parts of Mainland China and quarantine measures imposed by the relevant authorities to combat the COVID-19 outbreak. An announcement relating to the audited results will be made 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 preliminary annual results contained herein have not been audited and have not been agreed by the Company's auditors, but have been reviewed by the Audit Committee and are announced pursuant to the "Joint statement in relation to results announcements in light of travel restrictions related to the severe respiratory disease associated with a novel infectious agent" dated 4 February 2020 jointly issued by the Securities and Futures Commission and the Stock Exchange of Hong Kong Limited which, despite without auditors' agreement, is otherwise in all respects in full compliance with the other reporting requirements set out in the GEM Listing Rules.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited annual results for the year ended 31 December 2019 as agreed by the Company's auditors and explanations about the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares of the Company will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcements as and when necessary if there are other material developments in the completion of the auditing process. The Company expects to publish its annual report on or before 14 May 2020 if the aforesaid travel restrictions and quarantine measures are uplifted which allows sufficient time for the Company's auditors to complete the auditing process.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This unaudited annual results announcement is published on the website of the Company at www.cdculture.com and the website of Stock Exchange at www.hkexnews.hk. The annual report and the notice of annual general meeting will be despatched to the Shareholders and will be available on the above websites in due course.

The financial information contained herein in respect of the annual results of the Group for the year ended 31 December 2019 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.

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

Hong Kong, 31 March 2020

As at the date hereof, the Board comprises Mr. Hsu Tung Chi and Ms. Zhang Jing as executive Directors; Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin as independent non-executive Directors.

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, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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