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

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

(Stock Code: 8175)

AUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 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.

RESULTS

Reference is made to the announcement of the Company dated 31 March 2020 in relation to the unaudited annual results for the year ended 31 December 2019 and the announcements of the Company dated 30 March 2020, 13 May 2020, 5 June 2020 and 15 June 2020 in relation to, among other things, the delay in publication of the announcement for the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 and the dispatch of annual report of the Group for the year ended 31 December 2019.

The board (the "Board") of Directors presents the audited consolidated results of the Group for the year ended 31 December 2019, together with the comparative audited figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
Revenue	4	**181,367**	290,231
Cost of services rendered		**(129,758)**	(196,996)
Gross profit		**51,609**	93,235
Other income and other gains	5	**317,235**	7,907
Selling and distribution costs		**(2,823)**	(5,350)
Administrative and other expenses		**(770,906)**	(147,231)
Finance costs	6	**(34,129)**	(33,743)
Fair value change on contingent consideration		**(1,351)**	(11,385)
Share of results of an associate		**(891)**	(761)
Share of results of a joint venture		**(1)**	499
Loss before taxation	6	**(441,257)**	(96,829)
Income tax	7	**19,395**	(7,592)
Loss for the year		**(421,862)**	(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 ("FVTOCI")		**1,642**	(20,031)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(4,391)**	(5,426)
Foreign currency translation reserve realised on disposal of subsidiaries		**43**	–
Share of other comprehensive loss of a joint venture		**57**	(171)
		(2,649)	(25,628)
Total comprehensive loss for the year		**(424,511)**	(130,049)
Loss attributable to:			
Equity holders of the Company		**(419,868)**	(101,728)
Non-controlling interests		**(1,994)**	(2,693)
		(421,862)	(104,421)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(422,413)**	(127,420)
Non-controlling interests		**(2,098)**	(2,629)
		(424,511)	(130,049)
Loss per share	9		
Basic		**HK(21.38) cents**	HK(5.24) cents
Diluted		**HK(21.38) cents**	HK(5.24) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**1,977**	8,742
Right-of-use assets		**5,180**	–
Intangible assets	*10*	**266,507**	288,069
Goodwill	*11*	**145,152**	641,087
Interest in an associate		**591**	1,495
Interest in joint ventures		**–**	5,627
Financial assets at FVTOCI		**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
		635,245	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*	**86,442**	97,930
Bank balances and cash		**32,568**	78,776
Tax receivable		**573**	–
Non-current asset and assets of disposal group classified as held for sale	*13*	**13,769**	7,271
		204,163	332,113
Current liabilities			
Accounts and other payables		**52,933**	54,461
Interest-bearing borrowings		**–**	4,538
Lease liabilities		**3,150**	–
Tax payable		**18,346**	18,346
Contingent consideration-convertible bonds		**–**	212,314
Liabilities of disposal group classified as held for sale	*13*	**4,310**	1,067
		78,739	290,726
Net current assets		**125,424**	41,387
Total assets less current liabilities		**760,669**	1,223,620
Non-current liabilities			
Convertible bonds		**401,834**	397,439
Lease liabilities		**2,150**	–
Deferred tax liabilities		**31,305**	52,660
		435,289	450,099
NET ASSETS		**325,380**	773,521
Capital and reserves			
Share capital	*14*	**80,807**	77,607
Reserves		**250,313**	694,666
Equity attributable to equity holders of the Company		**331,120**	772,273
Non-controlling interests		**(5,740)**	1,248
TOTAL EQUITY		**325,380**	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 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 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 year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these 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.

Transition and summary of effects arising from initial application of HKFRS 16

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;

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

The Group recognised lease liabilities of HK$10,406,000 and right-of-use assets of HK$10,406,000 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
Operating lease commitments disclosed as at 31 December 2018	13,713
Less: Recognition exemption – short-term leases	(2,937)
	10,776
Lease liabilities at 1 January 2019 discounted at relevant incremental borrowing rates	10,406
Analysed as	
Current	3,448
Non-current	6,958
	10,406

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$'000	Adjustments HK$'000	Carrying amount under HKFRS 16 at 1 January 2019 HK$'000
Non-current assets			
Right-of-use assets	–	10,406	10,406
Current liabilities			
Lease liabilities	–	(3,448)	(3,448)
Non-current liabilities			
Lease liabilities	–	(6,958)	(6,958)

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 consolidated 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	Classification of Liabilities as Current or Non-current[5]
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

5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. The Amendments to References to the Conceptual Framework in HKFRS Standards, will be effects 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.

Going concern basis

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

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

Notwithstanding the preparation for the defense of the Claim Documents, the directors of the Company are taking measures to improve the liquidity and solvency position of the Group. These measures include (i) negotiations with potential strategic investors in respect of a possible equity contribution to the Company; (ii) negotiations with Hangzhou Liaison to settle the legal case, (iii) speeding up the collection of receivables process and (iv) tightening the operating cash outflows through cutting costs and capital expenditures.

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

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

4. REVENUE

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

	2019	2018
	HK$'000	HK$'000
Entertainment		
– Licensing of music content	**3,579**	8,324
– Consultancy service income	**3,211**	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	**15,675**	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	**11,111**	12,363
Total revenue	**181,367**	290,231

5. OTHER INCOME AND OTHER GAINS

	2019	2018
	HK$'000	HK$'000
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 disposal of subsidiaries	**60,505**	–
Gain on derecognition of convertible bond	**12,360**	–
Gain on disposal of right-of-use assets	**80**	–
Gain on derecognition of contingent consideration	**240,000**	–
Sundry income	**3,136**	6,971
	317,235	7,907

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	2019 **HK$'000**	2018 HK$'000
Finance costs		
Interest on convertible bonds	**33,786**	32,908
Interest on bank loans	**84**	835
Interest on lease liabilities	**259**	–
	34,129	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	**4,541**	–
Expenses related to short-term leases	**1,861**	–
Operating lease payments on premises	**–**	7,984
Allowance for accounts receivable	**21,823**	3,243
Allowance for loans to and due from joint ventures	**1,185**	2,767
Allowance for other receivables	**18,455**	–
Impairment loss on intangible asset	**79,310**	7,868
Impairment loss on goodwill	**495,935**	18,545
Impairment loss on deposits of acquisition of a subsidiary	**–**	800
Impairment loss on interest in joint ventures	**648**	–
Written-down of inventories	**39,000**	25,175
Loss on disposal of property, plant and equipment	**3**	–
Write-off of deposits for acquisition of unlisted investment	**4,680**	–
Fair value loss on financial assets at fair value through profit or loss	**2,712**	–

7. INCOME TAX

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual period beginning on or after 1 January 2018.

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

	2019 **HK$'000**	2018 HK$'000
Hong Kong Profits Tax		
Current year provision	**2,145**	3,221
(Over) Underprovision in prior year	**(155)**	849
EIT		
Current year provision	**17**	3,641
(Over) Underprovision in prior year	**(47)**	1,235
Deferred tax		
In respect of current year	**(21,355)**	(1,354)
Total tax (credit)/expense for the year	**(19,395)**	7,592

8. DIVIDENDS

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

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share was based on the loss attributable to equity holders of the Company of HK$419,868,000 (2018: HK$101,728,000) and the weighted average number of the 1,964,211,000 (2018: 1,940,176,000) ordinary shares in issue during the year.

(b) Diluted loss per share

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

10. INTANGIBLE ASSETS

	Usage 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	Usage right of electric game HK$'000	Broadway musical license HK$'000	Streaming platform HK$'000	Software license right HK$'000	Total HK$'000
Reconciliation of carrying amount											
– year ended 31 December 2018											
At the beginning of reporting period	35,320	8,292	169,355	37,167	14,444	11,714	–	–	–	–	276,292
Addition	–	–	–	–	–	–	35,000	–	–	–	35,000
Amortisation	(4,415)	(1,864)	–	(4,028)	(2,101)	(2,652)	(274)	–	–	–	(15,334)
Impairment	–	(6,120)	–	–	–	(1,748)	–	–	–	–	(7,868)
Effect on foreign currency exchange different	–	(9)	–	–	–	–	(12)	–	–	–	(21)
At end of reporting period	30,905	299	169,355	33,139	12,343	7,314	34,714	–	–	–	288,069
Reconciliation of carrying amount											
– year ended 31 December 2019											
At the beginning of reporting period	30,905	299	169,355	33,139	12,343	7,314	34,714	–	–	–	288,069
Addition	–	–	–	–	–	–	–	50,000	23,400	7,800	81,200
Amortisation	(4,415)	(103)	–	(4,029)	(3,151)	(2,140)	(3,488)	(5,376)	–	(600)	(23,302)
Impairment	–	–	(79,310)	–	–	–	–	–	–	–	(79,310)
Effect on foreign currency exchange different	–	(1)	–	–	–	–	(562)	413	–	–	(150)
At end of reporting period	26,490	195	90,045	29,110	9,192	5,174	30,664	45,037	23,400	7,200	266,507
At 31 December 2018											
Cost	44,150	23,228	169,355	40,295	15,757	13,261	35,000	–	–	–	341,046
Accumulated amortisation	(13,245)	(10,667)	–	(7,156)	(3,414)	(4,199)	(286)	–	–	–	(38,967)
Impairment	–	(12,262)	–	–	–	(1,748)	–	–	–	–	(14,010)
Net carrying amount	30,905	299	169,355	33,139	12,343	7,314	34,714	–	–	–	288,069
At 31 December 2019											
Cost	44,150	23,228	169,355	40,295	15,757	13,261	35,000	50,000	23,400	7,800	422,246
Accumulated amortisation	(17,660)	(10,771)	–	(11,185)	(6,565)	(6,339)	(4,336)	(4,963)	–	(600)	(62,419)
Impairment	–	(12,262)	(79,310)	–	–	(1,748)	–	–	–	–	(93,320)
Net carrying amount	26,490	195	90,045	29,110	9,192	5,174	30,664	45,037	23,400	7,200	266,507

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$'000	2018 HK$'000
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$'000	2018 HK$'000
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.

The management compared the recoverable amounts of the CGUs and their carrying amounts based on value-in-use calculations. Accordingly, impairment on goodwill with amount HK$495,935,000 (2018: HK$18,545,000) was recognised during the year.

12. ACCOUNTS AND OTHER RECEIVABLES

	Note	**2019 HK$'000**	2018 HK$'000
Accounts receivable			
From third parties		**96,291**	90,161
Loss allowance	*(i)*	**(23,769)**	(6,345)
	(i)	**72,522**	83,816
Prepayments and other receivables – current			
Deposits, prepayments and other receivables		**28,667**	8,978
Loss allowance	*(ii)*	**(18,455)**	–
Prepayments to licensors and service providers		**1,778**	3,439
Due from directors of subsidiaries of the Company	*(iii)*	**1,571**	1,647
Due from directors	*(iv)*	**359**	50
		13,920	14,114
		86,442	97,930
Prepayments – non-current			
Prepayments – use of the Likeness of artists for the Group's e-Sport team		**4,135**	12,339
Prepayment – contract costs for production of TV series	*(v)*	**–**	62,400
Prepayment of musical performances' contract	*(iv)*	**50,000**	–
		54,135	74,739
		140,577	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$65,927,000 (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	2018
	HK$'000	HK$'000
0-30 days	**6,595**	56,900
31-90 days	**10,984**	7,170
91-365 days	**38,728**	19,746
Over 365 days	**16,215**	–
	72,522	83,816

Movement in allowance for doubtful debts is as follows:

	2019	2018
	HK$'000	HK$'000
At beginning of the year	**6,345**	6,940
Increase in allowance	**21,823**	3,243
Amounts written off	**(4,399)**	(3,838)
At end of the year	**23,769**	6,345

(ii) Other receivables

Movement in allowance for doubtful debts is as follows:

	2019	2018
	HK$'000	HK$'000
At beginning of the year	**–**	–
Increase in allowance	**18,455**	–
At end of the year	**18,455**	–

(iii) 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.

(iv) 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 directors	**Maximum balance during the year HK$'000**	**2019 HK$'000**	2018 HK$'000
Hsu Tung Chi, Chris	359	**359**	–
Hsu Tung Sheng (resigned on 17 May 2019)	50	**–**	50
		359	50

(v) 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$62,400,000. Since the production of TV shows still undergoing, the production cost has not been utilised 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.

(vi) Prepayments of musical performances contract

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

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

	2019	2018
	HK$'000	HK$'000
Total assets classified as held for sale		
Interest in joint venture (i)	**4,922**	–
Assets of disposal group (ii)	**8,847**	7,271
	13,769	7,271
Total liabilities classified as held for sale		
Liabilities of disposal group (ii)	**4,310**	1,067

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

(ii) Disposal group classified as held for sale

For the year ended 31 December 2019

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

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

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

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

The disposal was completed on 12 June 2020.

For the year ended 31 December 2018

In December 2018, a subsidiary of the Group entered into an agreement with an independent third party to dispose of 100% equity interest in a subsidiary, namely Star Summer Company Limited, for a cash consideration of HK$70,000,000.

Star Summer Company Limited and its subsidiaries ("Star Summer Group") is principally engaged in provision of consultancy services in cultural industry and management and operation of eSports teams. Management concluded that the assets and liabilities of Star Summer Group should be classified as held-for-sale as at 31 December 2018 as it believes that it is highly probable that the disposal will be completed within twelve months from the date when the Star Summer Group was classified as disposal group classified as held for sale.

The assets and liabilities of Star Summer Group as at 31 December 2018 are as follows:

	HK$'000
Property, plant and equipment	252
Accounts and other receivables	6,806
Bank balances and cash	213
Total assets of disposal group classified as held for sale	7,271
Accounts and other payables	1,067
Total liabilities of disposal group classified as held for sale	1,067

The disposal was completed on 3 April 2019.

14. SHARE CAPITAL

	Note	Number of ordinary shares '000	Nominal value HK$'000
Authorised:			
At 1 January 2018, 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		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		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$0.01each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid 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.

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

15. DISPOSAL OF SUBSIDIARIES

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.

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**
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**

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Pursuant to (i) the financial information contained in the unaudited annual results announcement of the Company dated 31 March 2020 (the "Unaudited Annual Results Announcement") which was neither audited by nor agreed with the auditors of the Company as at the date of its publication and (ii) the subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and the audited annual results of the Group. Set forth below are details and reasons for the material differences in such financial information.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December 2019			
	Audited HK$'000	**Unaudited HK$'000**	**Difference HK$'000**	*Notes*
Revenue	**181,367**	**181,351**	**16**	*(i)*
Gross Profit	**51,609**	**51,593**	**16**	
Other income and other gains	**317,235**	**77,233**	**240,002**	*(ii)*
Administrative and other expenses	**(770,906)**	**(751,413)**	**(19,493)**	*(iii)*
Fair value change on contingent consideration	**(1,351)**	**238,649**	**(240,000)**	*(ii)*
Loss before taxation	**(441,257)**	**(421,780)**	**(19,477)**	*(iii)*
Income Tax	**19,395**	**19,308**	**87**	*(iv)*
Loss for the year	**(421,862)**	**(402,472)**	**(19,390)**	*(iii)*
Other comprehensive (loss)/income				
Foreign currency translation differences	**(4,391)**	**(4,251)**	**(140)**	*(i)*
Share of other comprehensive loss of a joint venture	**57**	**53**	**4**	*(i)*
Total comprehensive loss for the year	**(424,511)**	**(404,985)**	**(19,526)**	
Loss attributable to:				
Equity holders of the Company	**(419,868)**	**(400,485)**	**(19,383)**	*(iii)*
Non-controlling interests	**(1,994)**	**(1,987)**	**(7)**	*(iii)*
Total comprehensive loss attributable to:				
Equity holders of the Company	**(422,413)**	**(402,909)**	**(19,504)**	*(iii)*
Non-controlling interests	**(2,098)**	**(2,076)**	**(22)**	*(iii)*
Loss per share (HK cents per share):				
Basic	**(21.38)**	**(20.39)**	**(0.99)**	*(iii)*
Diluted	**(21.38)**	**(20.39)**	**(0.99)**	*(iii)*

Consolidated Statement of Financial Position

	At 31 December 2019			
	Audited	**Unaudited**	**Difference**	
	HK$'000	**HK$'000**	**HK$'000**	*Notes*
NON-CURRENT ASSETS				
Right-of-use assets	**5,180**	**5,149**	**31**	*(i)*
Intangible Assets	**266,507**	**266,857**	**(350)**	*(iii)*
Interest in joint venture	**–**	**5,574**	**(5,574)**	*(v)*
CURRENT ASSETS				
Accounts and other receivables	**86,442**	**105,553**	**(19,111)**	*(iii)*
Non-current assets and assets of disposal group classified as held for sale	**13,769**	**8,764**	**5,005**	*(v)*
CURRENT LIABILITIES				
Accounts and other payables	**52,933**	**55,465**	**(2,532)**	*(vi)*
Lease liabilities	**3,150**	**3,127**	**23**	*(i)*
Tax Payable	**18,346**	**16,561**	**1,785**	*(vi)*
Liabilities of disposal group held for sale	**4,310**	**4,226**	**84**	*(i)*
NON-CURRENT LIABILITIES				
Lease liabilities	**2,150**	**2,142**	**8**	*(i)*
Deferred tax liabilities	**31,305**	**31,393**	**(88)**	*(vii)*
CAPITAL AND RESERVES				
Reserves	**250,313**	**269,569**	**(19,256)**	*(iii)*
Non-controlling interests	**(5,740)**	**(5,718)**	**(22)**	*(i)*

Notes:

(i) The differences was due to use of different exchange rates for RMB.

(ii) The difference was mainly reclassification of figures from fair value change on contingent consideration to other income and other gains.

(iii) The difference was the result of additional impairment loss on intangible assets, joint venture and bad debt on other receivables. As a result of such adjustments, there is an increase in administrative expenses leading to an increase in loss for the year.

(iv) The difference was due to increase in deferred tax credit.

(v) The difference was mainly due to the reclassification of interest in joint venture to non-current assets and assets of disposal group classified as held for sale.

(vi) The difference was mainly due to the reclassification from accounts and other payables to tax payable.

(vii) The difference was due to the additional impairment on intangible asset.

Save as disclosed in this announcement and corresponding adjustments related to the above differences, all other information contained in the Unaudited Annual Results Announcement remains materially unchanged.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of CHINA DIGITAL CULTURE (GROUP) LIMITED (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

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

Up to the date of this report, the directors of the Company is in the process of preparing a defense to the Claim Documents. In the opinion of the directors of the Company, with reference to the legal opinion, the Company has valid ground to rebuttal the Allegations. However, we were unable to assess the impact and the outcome of the defense of the Claim Documents which will have significant impact on the consolidated financial position of the Company as at 31 December 2019 and the potential corresponding impact on the financial performance for the year ended 31 December 2019.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2019, the Company recorded revenue of approximately HK$181,367,000 (2018: HK$290,231,000) and a loss before taxation of approximately HK$441,257,000 (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.

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 of HK$14,949,000). The decrease in revenue is primarily attributable to general economic slowdown in the PRC and increased competition during 2019. The sports segment also recorded impairment of goodwill of approximately HK$52,229,000.

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

ENTERTAINMENT SEGMENT

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

During the year ended 31 December 2019, the entertainment segment recorded revenue of approximately HK$137,562,000 (2018: HK$235,350,000) and a loss before taxation and unallocated income and expenses of approximately HK$190,678,000 (2018: HK$60,170,000). The decrease in revenue was primarily due to poor market sentiment and cautious spending 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$127,908,000 (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 impairment of goodwill of HK$304,854,000 offset by gain on derecognition of contingent consideration of HK$240,000,000.

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$181,367,000, representing a decrease of approximately 37.5% 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 34.1% from approximately HK$196,996,000 in 2018. Gross profit margin in 2019 was approximately 28.5% which was lower than the gross profit margin of approximately 32.1% for the previous financial year.

During the year ended 31 December 2019, administrative expenses incurred by the Group were approximately HK$770,906,000 (2018: HK$147,231,000). The increase in administrative expenses was primarily due to the increase in written-down inventories, impairment of goodwill and intangible assets and provision for doubtful debt on accounts receivable.

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 the decrease in marketing expenses in 2019.

During the year ended 31 December 2019, the Group recorded approximately HK$34,129,000 (2018: HK$33,743,000) in finance costs.

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$419,868,000 (2018: loss attributable to equity holders of the Company of HK$101,728,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had current assets of approximately HK$204,163,000 (2018: HK$332,113,000) and current liabilities of approximately HK$78,739,000 (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$86,442,000 (2018: HK$97,930,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK$52,933,000 (2018: HK$54,461,000). As at 31 December 2019, the Group had a current ratio of approximately 2.59 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 minimize 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$14,311,000 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"). 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	Revised allocation of the net proceeds	Unutilised proceeds as at 31 December 2018	Actual use of proceeds from 1 January 2019 to 31 December 2019	Unutilised proceeds as at 31 December 2019
		HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
(i)	Expanding E-sports and webcast celebrity operations, including the investment in the newly acquired Shanghai Xin Ke Culture Media Company Limited and Jieyi Wenchuang Company Limited, and the joint venture investment in Yujia Yule Media Company Limited and Kunshan Jieyi Culture Communication Company Limited	180.0	149.0	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	66.3	66.3	–

THE SUBSCRIPTIONS

Reference is made to the announcements of the Company dated 15 August 2019 and 31 October 2019. The Company entered into subscription agreements with FortuneHill Enterprise Limited ("Subscriber I"), Baosteel Engineering International Fund Corporation Limited ("Subscriber II") and Willcon Worldwide Limited ("Subscriber III"), (collectively, the "Subscribers"), pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for the subscription shares comprising an aggregate of 380,000,000 new Shares at the subscription price of HK$0.128 per subscription share (the "Subscription Price").

The conditions precedent set out in the subscription agreement entered into between the Company and Subscriber III ("Subscription Agreement III") have been fulfilled and the completion in respect of the Subscription Agreement III took place on 31 October 2019 (the "Partial Completion"). An aggregate of 80,000,000 Subscription Shares have been allotted and issued by the Company to Subscriber III at the Subscription Price. Following the Partial Completion, the net proceeds raised from the new Share subscription pursuant to the Subscription Agreement III are approximately HK$10.2 million. As additional time is required to satisfy the conditions precedent set out in the subscription agreements entered into between the Company and Subscriber I ("Subscription Agreement I") and between the Company and Subscriber II ("Subscription Agreement II"), on 31 October 2019 (after trading hours), the Company entered into supplemental agreements with Subscriber I and Subscriber II (which, by a Certificate of Change of Name dated 15 August 2019 issued by the Companies Registry, had changed its name to Baosteel International Engineering Corporation Limited) respectively to extend the long stop date from 31 October 2019 to 29 November 2019 (or such later date as the Company and the Subscribers may agree in writing). However, since the conditions precedents of Subscription Agreement I and Subscription Agreement II have not been fulfilled by the extended long stop date of 29 November 2019 and the parties failed to agree on further extension thereof, both Subscription Agreement I and Subscription Agreement II lapsed.

	Planned use of proceeds stated in the announcement dated 15 August 2019	Actual use of proceeds up to 31 December 2019	Unutilised proceeds as at 31 December 2019
	HK$'million	HK$'million	HK$'million
(i) Developing, expanding and operating the Group's existing E-sports business segment.	10.2	10.2	–
	10.2	10.2	–

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 HK$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, 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, 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.

EVENTS AFTER THE 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 (the "CB Consideration") 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, of the CB Consideration 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 Company 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 29 September 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.

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

Save as disclosed above, there has been no material subsequent events from 31 December 2019 up to the date of this report.

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$24,991,000 (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

Fulfillment of 2019 Vector Vision Enterprises Limited 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.

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 net 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.

During the year ended 31 December 2018, the revenue and loss after tax of Liheng was approximately HK$9,490,400 and HK$2,343,392 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 2018, the total assets and net assets were approximately HK$26,208,984 and HK$3,696,693 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.6.7 stipulates that independent non-executive Directors and other non-executive Directors should attend general meeting and have a fair understanding of the shareholders' opinion. Code Provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and also invite the chairmen of the Audit Committee, the Remuneration Committee, the Nomination Committee and any other committee to the meeting.

The independent non-executive Directors could not attend the annual general meeting held on 24 June 2019 due to extraordinary business activities and unexpected events.

Code Provision A.2.1 states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Hsu Tung Sheng as the chairman of the Board with effect from 17 May 2019, Mr. Hsu Tung Chi was appointed both the chief executive officer of Company and the chairman of the Board but he ceased to be the chief executive officer from 23 December 2019.

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 HK$156,000 and no shares have been cancelled during the year. Details of the repurchases of shares of the Company are as follows:

Month of repurchase	Number of shares of HK$0.01each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	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

Save as those disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interests in any of the Company's listed securities.

SCOPE OF WORK OF ELITE PARTNERS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Elite Partners CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Elite Partners CPA Limited on the preliminary announcement.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements for the year ended 31 December 2019.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of HKEXnews (www.hkexnews.hk) as well as the website of the Company (http://www.cdculture.com). The Company's 2019 annual report will be dispatched to shareholders and will be published on the aforementioned websites on 22 June 2020.

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

Hong Kong, 22 June 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.