



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)

# ANNUAL REPORT 2019





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# CONTENTS

3	CORPORATE INFORMATION
4	FINANCIAL HIGHLIGHTS
5	CHAIRMAN'S STATEMENT
6	MANAGEMENT DISCUSSION AND ANALYSIS
16	CORPORATE GOVERNANCE REPORT
24	ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT
31	DIRECTORS' PROFILE
33	DIRECTORS' REPORT
42	INDEPENDENT AUDITOR'S REPORT
45	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
46	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
48	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
51	CONSOLIDATED STATEMENT OF CASH FLOWS
53	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Hsu Tung Chi (*Chairman*)  
Zhang Jing  
Lai Kwok Fai, Franki (resigned on 13 March 2020)  
Hsu Tung Sheng (resigned on 17 May 2019)

### Independent Non-executive Directors

Kwok Chi Sun, Vincent  
Wong Tak Shing  
Gou Yanlin

## CHIEF EXECUTIVE OFFICER

Jiang Chao (appointed on 23 December 2019)

## AUDIT COMMITTEE

Kwok Chi Sun, Vincent  
Wong Tak Shing  
Gou Yanlin

## REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent  
Hsu Tung Chi  
Gou Yanlin

## NOMINATION COMMITTEE

Kwok Chi Sun, Vincent  
Hsu Tung Chi  
Wong Tak Shing

## COMPANY SECRETARY

Tung Sze Ho, Dicky

## COMPLIANCE OFFICER

Hsu Tung Chi

## AUTHORISED REPRESENTATIVES

Hsu Tung Chi  
Tung Sze Ho, Dicky

## AUDITOR

Elite Partners CPA Limited  
*Certified Public Accountants*  
10/F, 8 Observatory Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

## REGISTERED OFFICE

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 17B, 17/F  
United Centre  
95 Queensway  
Hong Kong

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Management (Bermuda) Limited  
Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited  
Nanyang Commercial Bank, Limited  
Bank of Communications Co., Ltd

## WEBSITE ADDRESS

[www.cdculture.com](http://www.cdculture.com)

## STOCK CODE

08175



# FINANCIAL HIGHLIGHTS

	For the year ended 31 December				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
<b>RESULTS</b>					
Revenue	90,046	206,214	349,816	290,231	<b>181,367</b>
Profit/(loss) for the year attributable to:					
Equity holders of the Company	23,957	5,103	22,917	(101,728)	<b>(419,868)</b>
Non-controlling interests	4,934	161	(1,047)	(2,693)	<b>(1,994)</b>
Profit/(loss) for the year	28,891	5,264	21,870	(104,421)	<b>(421,862)</b>

## ASSETS AND LIABILITIES

	As at 31 December				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
Total assets	555,938	1,192,365	1,703,381	1,514,346	<b>839,408</b>
Total liabilities	(72,113)	(350,271)	(806,612)	(740,825)	<b>(514,028)</b>
Non-controlling interests	(26,290)	(24,336)	1,180	(1,248)	<b>5,740</b>
Net assets attributable to equity holders of the Company	457,535	817,758	897,949	772,273	<b>331,120</b>

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and continued in Bermuda on 19 December 2012. The Company has become the holding company of the Group since 15 January 2003 as a result of the Group reorganisation.



# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board"), we hereby present the annual report of China Digital Culture (Group) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2019 ("2019").

## RESULTS PERFORMANCE

For the year ended 31 December 2019, the revenue of the Group was approximately HK\$181,367,000, representing a decrease of approximately 37.5% as compared with the revenue of approximately HK\$290,231,000 for the year ended 31 December 2018 ("2018").

For the year ended 31 December 2019, the Company recorded a loss attributable to equity holders of the Company of approximately HK\$419,868,000 compared to a loss attributable to equity holders of the Company of approximately HK\$101,728,000 in 2018. The decrease in profit attributable to equity holders of the Company from 2018 to 2019 was primarily attributable to (i) increased impairment on goodwill and intangible assets; (ii) increased provisions on inventory and doubtful debts as a result of decreased revenue and collectability on accounts receivables; and (iii) poor market sentiment and cautious spending resulting from political unrest in Hong Kong coupled with the economic slowdown in the People's Republic of China (the "PRC") during 2019.

## OUTLOOK

Looking ahead at the rest of 2020, the Group will continue to expand the E-sports business. Although there is still a possibility of the Coronavirus Disease 2019 ("COVID-19") causing significant economic downturn in the world, the Group is optimistic that the E-sports industry will continue to grow and prosper in the long-term. The Group will continue to build on the aggressive expansion of the E-sports industry in the PRC and we are committed to creating an ecosystem that surrounds the E-sports industry including businesses in education, e-commerce, event operations and real estate development.

Finally, on behalf of the Board, I would like to express my heartfelt thanks to all our shareholders, investors and customers for their support, and all members of the Board and staff for their dedication and contribution to the Group.

**Hsu Tung Chi**

*Chairman*

Hong Kong, 22 June 2020



# 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.





# MANAGEMENT DISCUSSION AND ANALYSIS

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份有限公司), the “Subscriber”). The holders of the Convertible Bonds will be able to convert the outstanding principal amount of each of the Convertible Bonds into ordinary shares of the Company at a conversion price of HK\$0.55 per conversion share at any time following the date of issue until the maturity date (18 June 2022). The Convertible Bonds bear interest of 5.5 per cent per annum, payable annually. Please refer to the announcements of the Company dated 9 February 2017 and 19 June 2017 and the circular of the Company dated 13 March 2017 in relation to the issue of the Convertible Bonds for more details.

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

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.



## MANAGEMENT DISCUSSION AND ANALYSIS

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 HK\$'million	Revised allocation of the net proceeds HK\$'million	Unutilised proceeds as at 31 December 2018 HK\$'million	Actual use of proceeds from 1 January 2019 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	-

### 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”).



## MANAGEMENT DISCUSSION AND ANALYSIS

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.

	<b>Planned use of proceeds stated in the announcement dated 15 August 2019</b>	<b>Actual use of proceeds up to 31 December 2019</b>	<b>Unutilised proceeds as at 31 December 2019</b>
	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).



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 (張冲) and Wang Geng (王廣) (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.



# MANAGEMENT DISCUSSION AND ANALYSIS

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 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## (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.



## MANAGEMENT DISCUSSION AND ANALYSIS

- (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 report, 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 report, there is no unwinding of any of the Contractual Arrangements entered into between the Company, Zhang Chong (張沖) and Wang Geng (王廣) nor any change to the laws regulating the business of Liheng that led to the adoption of the Contractual Arrangements be removed.





# CORPORATE GOVERNANCE REPORT

## 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.

## 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 Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2019.

## BOARD OF DIRECTORS AND BOARD MEETINGS

The Board members for the year ended 31 December 2019 and up to the date of this report were:

### Executive Directors:

Mr. Hsu Tung Chi (*Chairman*)  
Ms. Zhang Jing  
Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020)  
Mr. Hsu Tung Sheng (resigned on 17 May 2019)

### Independent non-executive Directors:

Mr. Kwok Chi Sun, Vincent  
Mr. Wong Tak Shing  
Mr. Gou Yanlin

The Board is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, material transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the day-to-day management, administration and operation of the Company are delegated to the senior management. These responsibilities include the implementation of decisions of the Board, the coordination and direction of day-to-day operation and management of the Company in accordance with the strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior management and the Board has the full support of them to discharge its responsibilities.



# CORPORATE GOVERNANCE REPORT

The Directors' biographical information is set out on pages 31 to 32 of this report. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director of the Company has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

In compliance with the requirements under Rules 5.05(1) and (2) of the GEM Listing Rules, the Company appointed three independent non-executive Directors representing at least one-third of the Board, who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Each Director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmations of independence from each of the independent non-executive Directors. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

The Board held a board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

	Board meeting	General meeting
<b>Executive Directors:</b>		
Mr. Hsu Tung Sheng (resigned on 17 May 2019)	12/12	0/0
Mr. Hsu Tung Chi	27/27	2/2
Ms. Zhang Jing	27/27	0/2
Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020)	26/26	0/2
<b>Independent non-executive Directors:</b>		
Mr. Kwok Chi Sun, Vincent	27/27	1/2
Mr. Wong Tak Shing	27/27	0/2
Mr. Gou Yanlin	27/27	0/2

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company (the "Chief Executive Officer") are segregated and are not exercised by the same individual. Currently, Mr. Hsu Tung Chi, who is the chairman of the Board, is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst Mr. Jiang Chao, who is the Chief Executive Officer, supported by the executive Directors and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.



# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The remuneration committee of the Company (“Remuneration Committee”) was established on 11 June 2005 with written terms of reference in compliance with the Code Provision. The Remuneration Committee consists of three members, of which two are independent non-executive Directors, namely Mr. Kwok Chi Sun, Vincent and Mr. Gou Yanlin, and one is executive Director, namely Mr. Hsu Tung Chi. The chairman of the Remuneration Committee is Mr. Kwok Chi Sun, Vincent.

The Remuneration Committee, with delegated responsibility, is responsible for determining remuneration packages of individual Directors and senior management, including but not limited to directors’ fees, salaries, allowances, share options, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year ended 31 December 2019, the Remuneration Committee held one meeting with the following attendance:

<b>Members</b>	<b>Attendance</b>
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Hsu Tung Chi	1/1
Mr. Gou Yanlin	1/1

## NOMINATION COMMITTEE

The Company has established a nomination committee (“Nomination Committee”) on 23 March 2012 with written terms of reference in compliance with the GEM Listing Rules. The Nomination Committee comprises three members, of which one is executive Director, namely Mr. Hsu Tung Chi and two are independent non-executive Directors namely Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing. The chairman of the Nomination Committee is Mr. Kwok Chi Sun, Vincent.

The principal duties of Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible for considering and recommending to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and will review the Board Diversity Policy (as defined below), so as to develop and review measurable objectives for implementing the Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

During the year under review, the Nomination Committee held two meetings with the following attendance:

<b>Members</b>	<b>Attendance</b>
Mr. Kwok Chi Sun, Vincent	2/2
Mr. Wong Tak Shing	2/2
Mr. Hsu Tung Chi	2/2



# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") on 24 January 2003 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary responsibilities of the Audit Committee include the monitoring of the integrity of periodic financial statements and the annual report, interim report and quarterly reports, the review and monitoring of the auditor's independence, and the review of risk management and internal control system of the Group. The Audit Committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Kwok Chi Sun, Vincent.

The Audit Committee held five meetings during the year ended 31 December 2019. Details of the attendance of the Audit Committee meetings are as follows:

Members	Attendance
Mr. Kwok Chi Sun, Vincent	5/5
Mr. Wong Tak Shing	5/5
Mr. Gou Yanlin	5/5

The Group's annual audited results for the year ended 31 December 2019 have been reviewed by the Audit Committee, who were of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## NOMINATION POLICY

The Board adopted a nomination policy which establishes written guidelines to the Nomination Committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Nomination Committee considers the following factors in assessing the suitability of the proposed candidate:

- (a) reputation for integrity;
- (b) accomplishment, experience and reputation in the relevant industry and other relevant sectors;
- (c) commitment in respect of sufficient time, interest and attention to the Company's business;
- (d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge;
- (e) the ability to assist and support management and make significant contributions to the Company's success;
- (f) compliance with the criteria of independence as prescribed under Rule 5.09 of the GEM Listing Rules for the appointment of an independent non-executive Director; and
- (g) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.



# CORPORATE GOVERNANCE REPORT

## BOARD DIVERSITY POLICY

The Board has adopted a policy of the Board diversity (the “Board Diversity Policy”) which sets out the approach to achieve diversity on the Board.

Under the Board Diversity Policy, the Company considers diversity of Board members to be achieved through consideration of a number of aspects, including but not limited to, gender, age, cultural and educational background, experience (professional or otherwise), skills, and knowledge. All Board appointments are based on merit, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

## DIVIDEND POLICY

The Board has adopted a dividend policy (the “Dividend Policy”). In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things, the following factors:

- (a) the general financial condition of the Group;
- (b) capital and debt level of the Group;
- (c) future cash requirements and availability for business operations, business strategies and future development needs;
- (d) any restrictions on payment of dividends that may be imposed by the Group’s lenders;
- (e) the general market conditions; and
- (f) any other factors that the Board deems appropriate.

The payment of dividend is also subject to any restrictions under the Companies Law of the Bermuda and any other applicable laws, rule and regulations and bye-laws of the Company.



# CORPORATE GOVERNANCE REPORT

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2019, all Directors have participated in continuous professional development by attending training courses, or reading materials/in-house briefing on the topics related to corporate governance and regulations as follows:

	Reading materials/ In-house briefing	Attending training course
<b>Executive Directors:</b>		
Mr. Hsu Tung Sheng (resigned on 17 May 2019)	✓	
Mr. Hsu Tung Chi	✓	
Ms. Zhang Jing	✓	
Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020)	✓	✓
<b>Independent non-executive Directors:</b>		
Mr. Kwok Chi Sun, Vincent	✓	✓
Mr. Wong Tak Shing	✓	✓
Mr. Gou Yanlin	✓	✓

## AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the fees paid to the auditor in respect of audit and non-audit services provided by the auditor of the Group were as follows:

Nature of services	Amount (HK\$'000)
Audit services	2,400
Non-audit services	
– Others	60

## COMPANY SECRETARY

Mr. Tung Sze Ho, Dicky ("Mr. Tung"), who is delegated by an external secretarial service provider, Angela Ho & Associates ("AHA"), has been appointed as the company secretary of the Company (the "Company Secretary") since 9 August 2018. Mr. Tung was nominated by AHA to act as the Company Secretary and AHA has been providing certain corporate secretarial services to the Company pursuant to an engagement letter of AHA. The primary person at the Company with whom Mr. Tung has been contacting in respect of company secretarial matters is Mr. Hsu Tung Chi, the Company's executive Director. Mr. Tung is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). He has extensive experiences in the company secretarial field. He reports to the Board and assists the Board in functioning effectively and efficiently. During the year ended 31 December 2019, Mr. Tung undertook not less than 15 hours of professional training to update his skill and knowledge.



# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT INTERNAL CONTROL

The Board is responsible for maintaining the Group's risk management and internal control system and reviewing the effectiveness of these controls. Risk management and internal control system is designed to meet the particular needs of the Group and the risk to which it is exposed.

The key control procedures established by the Group are day-to-day supervision of the business by the executive Directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

- procedures for the approval of capital expenditure and payments;
- regular financial information provided to management for reviewing the Group's performance;
- clearly defined management structure and lines of responsibility.

## ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The statement by the external auditor about its responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this report.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.



# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### A. Procedures for the Shareholders to convene a special general meeting

Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid up capital of the Company may submit a written requisition to the Company to convene a special general meeting. The requisition must state the purpose of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong.

If the Directors do not proceed duly to convene a special general meeting within twenty-one days from the deposit of the requisition, then the requisitionists (or any of them representing more than one half of the total voting rights of all of them) may themselves convene a meeting provided it is held within three months from the date of deposit of the requisition.

### B. Procedures for putting forward proposals at a Shareholders meeting

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders having a right to vote at the meeting, or not less than one hundred shareholders of the Company, may submit to the Company a written request (a) to give to the shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting or (b) to circulate to the shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A copy of such written request signed by the requisitionists or two or more copies which between them contain the signatures of all the requisitionists must be deposited at the registered office of the Company or the Company's principal place of business in Hong Kong not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or one week before the meeting in the case of any other requisition.

## INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Since the change of domicile with effect from 19 December 2012, the changes in the Company's constitutional documents, have been available on the websites of the Company and the Stock Exchange.





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE GROUP

The Group is principally engaged in distribution of copyright-protected items and other entertainment-related business; production of television drama series and talent management; licensing and sale of entertainment content and products; investment management focusing on investments in the cultural industry; provision of consultancy services in cultural industry; provision of entertainment project planning, celebrity management and production of online streaming content; assisting professional athletes in marketing and promotional activities; licensing of professional sports events and entertainment content; operating film-based cultural parks and tourism focused projects; and business of training, nurturing and managing e-Sports teams and eSports broadcasters. The Group mainly operates in Beijing, Shanghai, Kunshan, Hong Kong, and Taipei.

## A ENVIRONMENTAL

### A1: Emissions

The Group's daily operation does not involve the production of air and greenhouse gas emissions, discharges into soil and water or the generation of hazardous and non-hazardous. Solid packaging materials are not necessary since the Group is mainly engagement in the sports and entertainment business.

For the year ended 31 December 2019, there were no confirmed non-compliance incidents or grievances in relation to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

#### *Indirect Greenhouse Gas Emissions from Electricity Consumption*

Electricity consumption of the Group is a major part of its greenhouse gas emissions. Various electricity-saving policies have been established to reduce the electricity consumption by the Group. The Group encourages staff members to switch off light during daytime, maintain lamps well to keep clean, use stairs instead of elevators, install energy-efficient lighting, and disable the standby mode for all electrical appliances, including computers, photocopiers and printers when they are not in use. Air conditioning is required to be set no lower than 25°C in summer. It is also required to ensure the windows and doors are closed while air-conditioning is on, and turn off the air-conditioning after office hours or after the usage of the meeting room.

#### *Indirect Greenhouse Gas Emissions from Business Travel by Employees*

The Group constantly reminds employees to consider environmental impact in their commuting decisions to reduce air and greenhouse gas emissions. Employees are encouraged to take public transportation as often as possible and select fuel-efficient vehicles. While employees are driving, it is recommended to avoid unnecessary acceleration or deceleration, keep windows closed when the vehicle is travelling at high speed, and only use air-conditioning when it is necessary.

The Group recognises the severity of indirect greenhouse gas emissions from business travel by employees and requires employees to utilise teleconference instead of overseas meetings and choose railway rather than airway for short distance travel to reduce the carbon footprint of business travel.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Discharges into Water and Land*

The Group requires that discharges, if any, into waterways and land must comply with relevant laws and regulations.

## *Hazardous Waste Management*

Hazardous wastes are those defined by national regulations. There was no significant hazardous waste generated in view of the Group's business nature.

## *Non-hazardous Waste Management*

We promote waste reduction practices including waste reduction at source, reuse, clean recycling, recover and reduction of disposal at landfills. Employees are encouraged to purchase supplies or equipment with an option to be upgraded and longer life-span, to install recycling bins to collect recyclables, such as waste paper, aluminium bottles, metal, and plastic, and to have recyclers to collect recyclables. For the entertainment segment, 24 tonnes of other non-hazardous waste for the year ended 31 December 2019.

## *Paper Waste Management*

In order to address indirect emissions relating to paper waste deposited at landfills, we encourage employees to apply computer technology such as emails and storage devices to reduce paper consumption, print on both sides of a sheet of paper, avoid unnecessary printing or copying on paper, and adjust documents and use space efficiency formats to optimise use of paper.

As a result of the concerted efforts of various parties of the Group, the following is the emission data of different segment of the Group.

<b>Greenhouse gas (GHG) emissions</b>	<b>Unit</b>	<b>2019</b>	<b>2018</b>
Scope 1 – emissions from combustion sources	Tonne	<b>31</b>	48
Scope 2 – emissions from acquired electricity	Tonne	<b>191</b>	302
Scope 3 – other indirect emissions	Tonne	<b>39</b>	95
Total GHG emissions	Tonne	<b>261</b>	445
GHG emissions intensity	Tonne/ HK million revenue	<b>1.4</b>	1.5

## **A2: Use of Resources**

The Group has always complied with the Listing Rules and the provisions of the Environmental Protect Law of the PRC. In view of the scarcity of resources, the Group has established the following policies and procedures on the efficient use of resources, such as reducing consumption of electricity such as limiting the usage for lights and air conditioning, turning off the electrical appliances when the electrical appliances are not in use, using recycle papers for internal documents and storing data electronically.

Moreover, the Group has set up several recycling bins in offices to collect waste paper and electronic waste. The Group would transfer useable electronic products to school or social welfare organizations and transfer unusable electronic products to second-hand electronic collector. Water-savings poster are also used in washrooms to remind employees reduce water consumption.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following consumption data and consumption intensity were recorded in the year ended 31 December 2019:

Use of resources	Unit	Consumption	Intensity (per staff)
Electricity	kWh	322,174	13,746
Water	Tonne	6,334	903
Paper usage	kg	60	1

In view of the Group's business nature, there was no significant raw material or packaging material used in operation.

The Group recognises that efficient use of resources, including energy and water, in production, transportation, buildings, electronic equipment, etc., is one of the significant aspects to protect environment. The Group will continue motivating all its employees to participate in resources conservation activities and encourages them to save electricity, water, power and paper, in order to concert effort of reducing energy consumption.

### A3: The Environment and Natural Resources

The Group continues to review the environmental impact of its operations and make use of best practices across their functions and to develop monitoring of resources consumption data and implementing better performance strategies as to enhance the contributions to environmental sustainability through good environmental practices. The Group does not ignore the opportunity to contribute to sustainability at the office space, and the Group enhances environmental awareness of the employees through adopting central air conditioning and maintaining temperature at 25 degrees to reduce usage of air conditioning and save more energy.

## B. SOCIAL

### Employment

#### *Labour practices*

To ensure an equal and fair working environment, the Group adopts practices and policies of Labour Law of the People's Republic of China 《中華人民共和國勞動法》, Labour Contract Law of People's Republic of China 《中華人民共和國勞動合同法》 and other relevant laws and regulations. The Group also follows the relevant laws and regulations of the Labor Standards Act 《勞動基準法》 to formulate relevant policies in Taiwan.

For the year ended 31 December 2019, there were no confirmed non-compliance incidents or grievances in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## *Compensation and dismissal*

The Group offers competitive remuneration to attract and retain talented staff members. Remuneration packages are reviewed periodically to ensure consistency with employment market. Laws and regulations on minimum wage and statutory social benefits are required to be followed. Dismissal is required to comply with employment laws and regulations, and to follow the internal policies and procedures, including policy on prevention of dismissal purely on employees' gender, marital status, pregnancy, disability, age or family status.

## *Recruitment and promotion*

The Group attracts talent through fair, flexible and transparent recruitment strategy. Recruitment process includes application for recruitment, description of position, collection of job applications, interview, selection, approval, and job offering. Promotion is based on performance and suitability.

## *Working hours, rest periods, benefits and welfare*

Employees' working hours, rest periods, benefits and welfare, including social security benefits, mandatory provident fund, and labour pension, are required to be in compliance with employment or labour laws and regulations. Selected benefit programs, including medical coverage, are also provided.

## *Equal opportunities, diversity and anti-discrimination*

The Group is an equal opportunity employer. The Group endeavours to provide a fair workplace for employees and follow the principles of equality and non-discrimination. Recruitment, remuneration, promotion, and benefits are required to be handled based on objective assessment, equal opportunity and non-discrimination regardless of gender, race, age, or other measures of diversity.

At the year ended 31 December 2019, the Group has 86 employees. The table below show the workforce distribution by gender, age group and geographical regions:

	<b>No. of staff</b>
Gender	
Male	57
Female	29
Age Group	
18-30	40
31-40	23
41-50	11
51 or above	12
Service period	
Less than 2 years	34
2 to 4 years	44
Over 4 years	8



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Health and Safety

The Group is committed to maintaining a healthy and safe workplace for employees, and to preventing workplace injuries and illnesses.

The Group requires entities to establish and document policies and procedures on safety for employees to follow, set targets for the safety of employees, monitor the safety performance against the targets periodically, and report any safety incidents to management.

One of the key factors for successfully protecting employees from occupational hazards is to train employees to protect themselves from psychological and physical hazards. The Group requires such training to be delivered to employees.

Workplace, including storage and offices, are equipped with fire and safety equipment to prevent outbreak of fire accident and the validity of the fire facilities have been regularly checked.

For the year ended 31 December 2019, there were no confirmed non-compliance incidents or grievances in relation to providing a safe working environment and protecting employees from occupational hazards.

## Development and Training

The Group is committed to providing adequate training to our employees to improve their knowledge and skills for discharging duties at work. Training includes vocational training courses provided internally or externally and paid by the Group.

The Group provides training for all employees and the training is arranged according to employees' departments and positions. The Group also provides training for new employees, including the company's development, strategic objectives, corporate culture, and business knowledge to help them integrate into the new working environment as soon as possible. All employees are trained at least 4 hours per year and the management keeps the training and attendance record properly.

For eSports business, all employees for the team are occupational and they participate in the internal regiment training. Team coach supervisor and analysts take the responsibilities to analyse and discuss the performance of competitions, in order to cultivate the cohesive among team members and strengthen their abilities.

## Labour Standards

There is no tolerance towards recruitment of minors and forced labour for the Group's operation. There is compliance towards Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》 and any individuals under legal working age and individuals without any identification documents are discharged from employment.

There is a strict recruitment procedure through Human Resource Department and upon discovery of any child labour and use of forced labour, the person will be dismissed immediately and the Board will discuss and review the discovered event to prevent it from happening again. For the year ended 31 December 2019, there were no confirmed non-compliance incidents or grievances in relation to child and forced labour.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## OPERATING PRACTICES

### Supply Chain Management

Supply chain management is a key area of our business, which includes managing environmental and social risks of the supply chain. The Group requires suppliers to provide products and services for us with up-to-standard quality, health and safety to ensure compliance with environmental laws and regulations, and labour standards. The contracting for procurement of products and services is required to be based solely upon specification, quality, service, price, tendering, and applicable environmental and social considerations.

The Group established supply chain management policies and procedures, including assessment, selection, approval, procurement, performance evaluation. Performance evaluation is based on quality, service, cost, environmental protection, and social responsibilities. The Group strives to ensure that their suppliers uphold similar stance in sustainability.

### Product Responsibility

The policies which the Group has adopted to ensure customer satisfaction and product and service quality.

The Group respects our customers' rights and is committed to providing accurate product and service information for customers in connection with their purchase or consumption decision. The Group requires careful review of advertising material to protect customers' interest. The Group requires that labelling is accurate, clear, legitimate, and not misleading, and intellectual property rights are protected. Any intellectual property part of a contract will be signed as a confidentiality agreement or equivalent to a confidentiality agreement.

Customers' data will also be kept in confidential in order to protect consumer data and privacy and be destroyed on a timely basis. The Group keeps business information confidential and trains employees in this regard and proper information system security are required.

Also, the Group has complied towards the Product Quality Law of the People's Republic of China 《中華人民共和國產品質量法》. The Group is fully responsible for its products and services, including health and safety relating to its products. The Group ensures health and safety relating to its products from the following areas: product design to ensure health and safety, health and safety check for finished products, proper delivery and after-sale services. The Group requires that products or services with quality, safety, or health issues should be returned or compensated in accordance with terms of sales or service contracts. Recall, return, or compensation of products and services is required to be offered to all customers who are affected with consistent treatment and procedures.

The Group complies with various regulations to the operation of the business in the jurisdictions that the Group operates in. For the year ended 31 December 2019, the Group did not have any product returned due to safety or health problems or any complaint received from customers.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **Anti-corruption**

The Group established anti-corruption policies to prohibit employees from receiving any advantages offered by customers, suppliers, colleagues, business allies, or other parties, while they are performing employee duties, and prohibit any activities involving conflicts of interest, bribery, extortion, fraud, and money laundering. Staff handbook lays out the Group's expectation and guiding provisions on code of conduct. The Group encourages employees, customers, suppliers, business allies, or other parties to report incidents relating to any conflicts of interest, extortion, bribery, fraud and money laundering.

The Group complied with relevant laws and regulations that have significant impact in the Group. For the year ended 31 December 2019, there were no non-compliance incidents or grievances in relation to bribery, extortion, fraud and money laundering.

## **COMMUNITY**

### **Social Investment**

The Group believes in giving back to the community because contribution to society is one of the Group's sustainable development strategy. The Group is committed to providing career opportunities to the locals and promoting the development of the community's economy.

The Group encourages employees to seek opportunities, participate more in charity work in the future and get involved in various community programs, such as community health initiatives, sports, cultural activities, volunteer work and education donation.



# DIRECTORS' PROFILE

## EXECUTIVE DIRECTORS

**Mr. Hsu Tung Chi (許東琪)**, aged 51, was appointed as an executive Director and Chief Executive Officer on 1 February 2011. Mr. Hsu was appointed as chairman of the Board on 17 May 2019 and ceased to act as the Chief Executive Officer on 23 December 2019. Mr. Hsu holds a bachelor's degree in Economics from Fu Jen Catholic University (輔仁大學) in Taiwan. He is also the compliance officer of the Company and a member of the Remuneration Committee and the Nomination Committee.

Mr. Hsu has over 20 years' experience in advisory on management, operation and strategic planning. Mr. Hsu worked in Daily Air Corporation from October 1993 to January 2005 as deputy general manager, responsible for management and development of business. Before joining the Group, he has been an executive director of Palmpay China (Holdings) Limited (now known as China Ocean Group Development Limited) (Stock Code: 8047) from March 2008 to July 2011, in which he was responsible for the management function and business operation of some of its subsidiaries.

Mr. Hsu is a director of a number of the Group members and is responsible for overall management and operation of the Group's entertainment, sports and Theme Park segments.

**Ms. Zhang Jing (張靜)**, aged 53, was appointed as an executive Director on 31 May 2016. Ms. Zhang is responsible for overall advisory of the Group's entertainment and sports segments. Ms. Zhang obtained a bachelor's degree in Material Management Engineering from Huazhong University of Science and Technology (華中理工大學) (now known as 華中科技大學) of the People's Republic of China in 1989. She then obtained a master of arts from Northeastern University in 1994 and a master of business administration in accountancy from Bernard M. Baruch College, City University of New York of the United States in 1998. She is experienced in accounting and financial management. She worked for Ernst & Young Hua Ming LLP from January 2006 to October 2011, in which her last position was senior manager in its core business service department. At present, Ms. Zhang acts as a director of Crown Link Group Limited, a company incorporated in the British Virgin Islands.

**Mr. Lai Kwok Fai, Franki (賴國輝)**, aged 55, was appointed as an executive Director on 22 July 2016. Mr. Lai obtained a bachelor's degree of arts in computing studies from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1989. He possesses extensive experience in accounting and financial advisory. Mr. Lai was the chief financial officer of Net Movie Limited from 2008 to 2012. Prior to that, Mr. Lai worked for JPMorgan Chase & Co. from 2000 to 2008 with his last position as executive director in treasury & securities services department of JPMorgan Chase & Co..

Mr. Lai is a director of a number of the Group members and is responsible for management and operation of the Group's Theme Park segment.

Mr. Lai has resigned as an executive Director effective from 13 March 2020.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Kwok Chi Sun, Vincent (郭志樂)**, aged 57, was appointed as an independent non-executive Director in October 2004. Mr. Kwok is also chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is a partner of Vincent Kwok & Co. and is a Certified Public Accountant (Practising). Mr. Kwok holds a bachelor's degree in Economics from University of Sydney. He has more than 25 years of experience in auditing and accounting. Mr. Kwok was previously employed by Price Waterhouse (now known as PricewaterhouseCoopers) from 1989 to 1995 in which his last position was senior audit manager and was also employed by Hopewell Holdings Limited from 1995 to 1996 as systems control manager and Cathay Pacific Airways Limited from 1996 to 1998 as financial audit manager. Mr. Kwok is currently an independent non-executive director of three other listed companies in Hong Kong, i.e. Shun Ho Property Investments Limited (Stock code: 219), Shun Ho Holdings Limited (Stock code: 253) and Magnificent Hotel Investments Limited (Stock code: 201).





## DIRECTORS' PROFILE

**Mr. Wong Tak Shing (黃德盛)**, aged 57, was appointed as an independent non-executive Director on 15 December 2009. Mr. Wong graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting degree. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong is also an independent non-executive director of Pa Shun International Holdings Limited (Stock code: 574). Mr. Wong was previously an executive director of China Ocean Group Development Limited (Stock code: 8047), a company listed on GEM of the Stock Exchange and an independent non-executive director of Digital Domain Holdings Limited (Stock code: 547), a company listed on the Main Board of the Stock Exchange.

**Mr. Gou Yanlin (苟延霖)**, aged 46, was appointed as an independent non-executive Director of the Company on 13 April 2016. Mr. Gou is also a member of the Audit Committee and Remuneration Committee. Mr. Gou obtained a Bachelor Degree in Heating, Ventilation and Air Conditioning from Gansu University of Technology (now known as Lanzhou University of Technology) of the People's Republic of China in 1997. He possesses experience in hotel management. Mr. Gou has been working as the executive director and the general manager of Guangzhou IMovie Inn Management Co., Ltd since 2014, and is responsible for all daily operations and business development of the company.

### CHIEF EXECUTIVE OFFICER

**Mr. Jiang Chao (蔣超)**, aged 48, was appointed as chief executive officer of the Company on 23 December 2019. Mr. Jiang is an associate member of the Association of Chartered Certified Accountants, a certified public accountant in the PRC and a member of Futian Committee of Chinese People's Political Consultative Conference. He obtained a bachelor's degree in economics from Sun Yat-Sen University in 1991.

Mr. Jiang has about 20 years of experience in accounting, finance and corporate management. Prior to joining the Group, Mr. Jiang worked for Coolpad Group Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 2369) and had been in the positions of an executive director, vice chairman, chief executive officer and chief financial officer from June 2002 to January 2019. Mr. Jiang also worked in various authorities and companies, including the State Audit Bureau, Qiaoxing Electronic Company Limited (the shares of which are listed on the NASDAQ Stock Exchange, stock symbol: XING), and ZTE Corporation (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763), being responsible for financial and accounting functions. Mr. Jiang was an independent non-executive director of Ming Fung Jewellery Group Limited (the shares of which are listed on the Stock Exchange, Stock Code: 860) from 2010 to 2015.

### DIRECTORS' INTEREST IN SHARES OF THE COMPANY

Each of Mr. Hsu Tung Chi, Ms. Zhang Jing and Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020) is interested in the shares of the Company as disclosed in the section headed "Directors' Report - Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures".



# DIRECTORS' REPORT

The Directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2019.

## DATE OF INCORPORATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 October 2002 under the Companies Law (as revised) of the Cayman Islands and continued in Bermuda as an exempted company with limited liability on 19 December 2012 in accordance with the Companies Act 1981 (as amended) of Bermuda. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its principal place of business in Hong Kong is Unit 17B, 17/F, United Centre, 95 Queensway, Hong Kong.

The Company's shares were listed on the GEM on 25 February 2003.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

## COMPLIANCE WITH LAWS AND REGULATION

During the year ended 31 December 2019, the Company confirmed it has complied with relevant laws and regulations which constitute material impact on the business and operation of the Company and its subsidiaries in all material times.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 45.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2019. During the year ended 31 December 2019, there was no arrangement under which any shareholder waived or agreed to waive any dividend.

## RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on pages 48 and 50.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account had a balance of approximately HK\$955,457,000 as at 31 December 2019 (2018: HK\$948,417,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 32 to the consolidated financial statements.



# DIRECTORS' REPORT

## BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the year ended 31 December 2019 is set out in the sections of "Chairman's Statement" and "Management Discussion and Analysis" of this report.

A review of the business of the Group, which includes a description of the principal risks and uncertainties facing the Group, an analysis using financial key performance indicators of the Group's business, particulars of important events affecting the Group, an indication of likely future developments in the Group's business, and discussion on the Company's environmental policies and performance and the relationships with its stakeholders, can be found in the sections headed "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" of this report. The review forms part of this directors' report.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report were:

### Executive Directors:

Mr. Hsu Tung Chi (*Chairman*)

Ms. Zhang Jing

Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020)

Mr. Hsu Tung Sheng (resigned on 17 May 2019)

### Independent non-executive Directors:

Mr. Kwok Chi Sun, Vincent

Mr. Wong Tak Shing

Mr. Gou Yanlin

In accordance with No.99 and 100 of the bye-laws of the Company, Mr. Kwok Chi Sun, Vincent and Mr. Gou Yanlin shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive Directors, and independent non-executive Directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive Directors of the Company concerning their independence in accordance with Rule 5.09 of the GEM Listing Rules. The Board believes that the existing independent non-executive Directors are independent based on the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save as disclosed above, none of the Directors have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors of the Company has a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2019.

# DIRECTORS' REPORT

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

## DIRECTORS' REMUNERATION

Directors' remuneration is subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Company. Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were (a) required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or (b) required, pursuant to section 352 of the SFO, to be entered in the register to therein, or (c) required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Interest in ordinary shares and underlying shares of the Company

Name of Director	Nature of interests	Number of shares interested	Approximate percentage or attributable percentage of shareholding (Note 5)
Mr. Hsu Tung Sheng (resigned on 17 May 2019)	Beneficial owner	18,375,000 (L)	0.91%
Mr. Hsu Tung Chi (Note 1)	Beneficial owner and Interest of controlled corporation	387,035,782 (L)	19.16%
Ms. Zhang Jing (Note 2)	Beneficial owner and Interest of controlled corporation	81,253,659 (L)	4.02%
Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020) (Note 3)	Beneficial owner and Interest of controlled corporation	54,129,778 (L)	2.68%
Mr. Jiang Chao (Note 4)	Interest of spouse	78,670,000 (L)	3.89%

(L) denotes long position



## DIRECTORS' REPORT

### Notes:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 368,789,559 shares of the Company. Daily Technology Company Limited beneficially owns 18,246,223 shares of the Company, which is in turn wholly owned by Mr. Hsu. Under the SFO, Mr. Hsu is deemed to be interested in 18,246,223 shares of the Company.
2. Ms. Zhang Jing ("Ms. Zhang") beneficially owns 53,853,659 shares of the Company. Crown Smart Investment Limited beneficially owns 27,400,000 shares, which is in turn wholly owned by Ms. Zhang. Under the SFO, Ms. Zhang is deemed to be interested in 27,400,000 shares of the Company.
3. Mr. Lai Kwok Fai, Franki ("Mr. Lai") beneficially owns 960,000 shares of the Company. Earn Wise Limited ("Earn Wise") beneficially owns 22,669,778 shares of the Company, which is in turn wholly owned by Mr. Lai. Under the SFO, Mr. Lai is deemed to also be interested in 22,669,778 shares of the Company.

Earn Wise holds convertible bonds in the principal amount of HK\$14,640,000 convertible to 30,500,000 shares of the Company at the initial conversion price of HK\$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interested in the 30,500,000 shares of the Company underlying the convertible bonds held by Earn Wise.

4. Cantrust (Far East) Trust Limited, the trustee of the GJ Family Trust, holds the entire issued share capital of Joint Power International Limited ("Joint Power"). Joint Power in turn holds 78,670,000 shares of the Company, representing approximately 3.89% of the issued ordinary share capital of the Company. The GJ Family Trust is a discretionary trust established by the wife of Mr. Jiang Chao ("Mr. Jiang") as the settlor, and the discretionary beneficiaries of which include Mr. Jiang's wife and his children. Accordingly, Mr. Jiang is deemed to be interested in the 78,670,000 shares of the Company held by Joint Power.
5. Based on 2,020,176,170 shares of the Company in issue as at 31 December 2019.

### (ii) Interest in underlying shares of the convertible bonds

Name of Director	Nature of interests	Principal amount of the convertible bonds	Number of underlying	Approximate percentage of interests (Note 2)
Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020) (Note 1)	Interest of controlled corporation	HK\$14,640,000	30,500,000 (L)	1.51%

### Notes:

1. Earn Wise is beneficially owned as to 100% by Mr. Lai. The underlying shares represented the new shares of the Company to be issued upon full conversion of HK\$14,640,000 convertible bonds held by Earn Wise, at the initial conversion price of HK\$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interest in 30,500,000 underlying shares of the Company.
  2. Based on 2,020,176,170 shares of the Company in issue as at 31 December 2019.
- (L) denotes long position



# DIRECTORS' REPORT

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 27 March 2013 pursuant to an ordinary resolution passed at a special general meeting and amended on 29 September 2014. For further details, please refer to note 33 to the consolidated financial statements. On 16 November 2018, the Company granted share options to certain eligible participants to subscribe for a total of 140,000,000 ordinary shares of HK\$0.04 each in the share capital of the Company under the Scheme. Details of the movements in the number of share options during the year ended 31 December 2019 under the Scheme are as follows:

Categories of grantees	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2019	Exercise price HK\$	Grant date	Exercisable period
<b>Directors</b>								
Mr. Hsu Tung Sheng (resigned on 17 May 2019)	16,000,000	-	-	16,000,000	-	0.23	16/11/2018	16/11/2018 – 15/11/2021
Mr. Hsu Tung Chi	16,000,000	-	-	-	16,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
<b>Employees</b>	108,000,000	-	-	10,000,000	98,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
	140,000,000	-	-	26,000,000	114,000,000			



# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December 2019, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

### (i) Interest in ordinary shares of the Company

Name of substantial shareholder	Nature of interests	Number of shares interested	Approximate percentage or attributable percentage of shareholding (Note 4)
Ms. Chuang Meng Hua (Note 1)	Interest of a spouse	387,035,782 (L)	19.16%
Best Million Holdings Limited (Note 2)	Beneficial owner	119,976,405 (L)	5.94%
Ms. Ma Hsin-Ting (Note 2)	Interest of controlled corporation	119,976,405 (L)	5.94%
Ease Wing Limited (Note 3)	Beneficial owner	114,816,406 (L)	5.68%
Mr. Ho Chi Sing (Note 3)	Interest of controlled corporation	114,816,406 (L)	5.68%

#### Notes:

1. Ms. Chuang Meng Hua is the spouse of Mr. Hsu Tung Chi, therefore, pursuant to the SFO, she is deemed to be interested in all the shares of the Company in which Mr. Hsu is interested.
2. Best Million Holdings Limited ("Best Million") is wholly and beneficially owned by Ms. Ma Hsin-Ting ("Ms. Ma"). Best Million beneficially owns 119,976,405 shares of the Company. Under the SFO, Ms. Ma is deemed to be interested in 119,976,405 shares of the Company held by Best Million.
3. Ease Wing Limited ("Ease Wing") is wholly and beneficially owned by Mr. Ho Chi Sing ("Mr. Ho"). Ease Wing beneficially owns 114,816,406 shares of the Company. Under the SFO, Mr. Ho is deemed to be interested in 114,816,406 shares of the Company held by Ease Wing.
4. Based on 2,020,176,170 shares of the Company in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.



# DIRECTORS' REPORT

## COMPETING INTERESTS

The Directors believe that none of the Directors nor the controlling shareholders (as defined in the GEM Listing Rules) of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the year ended 31 December 2019.

## CHARGE ON GROUP ASSETS

During the years ended 31 December 2018 and 2019, the Group has no pledge of assets.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Share Option Scheme" and "Directors' and Chief Executive's Interests in Shares, underlying Shares and Debentures" above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Pursuant to the bye-laws of the Company, the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties.

## RELATED AND CONNECTED PARTY TRANSACTIONS

Except otherwise disclosed in the consolidated financial statements, the Group had no transactions incurred during the year ended 31 December 2019 which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

## 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.





# DIRECTORS' REPORT

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 report, 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.

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results are described below:

### Credit Risk

The Group's credit risk is primarily attributable to accounts and other receivables and bank balances. A detailed discussion of the Group's credit risk in respect of accounts and other receivables is set out in note 25 to the consolidated financial statements.

### Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 29 to the consolidated financial statements.

### Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Directors closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.



# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's largest customer and the five largest customers accounted for approximately 25% (2018: 28.6%) and 69% (2018: 59.0%) respectively, of the Group's total revenue

During the year ended 31 December 2019, the Group's largest supplier and the five largest suppliers accounted for approximately 22% (2018: 21.2%) and 81% (2018: 82.0%) respectively, of the Group's total purchases.

None of the Directors, their close associates or any shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers or customers.

## 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 32 of the 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.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 were audited by Elite Partners CPA Limited, Certified Public Accountants, who will retire at the end of the forthcoming annual general meeting and being eligible, offer itself for re-appointment. A resolution will be proposed at to the annual general meeting to re-appoint Elite Partners CPA Limited as auditor of the Company.

On behalf of the Board

**Hsu Tung Chi**  
CHAIRMAN

Hong Kong, 22 June 2020



# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS of CHINA DIGITAL CULTURE (GROUP) LIMITED

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

### DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of CHINA DIGITAL CULTURE (GROUP) LIMITED (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 144, 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").



# INDEPENDENT AUDITOR'S REPORT

## **BASIS FOR DISCLAIMER OF OPINION** *(Continued)*

### **Multiple uncertainties relating to going concern** *(Continued)*

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 defend 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.

## **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.



# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 for Bermuda (as amended) and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement partner on the audit resulting in the independent auditor's report is Leung Man Kin with Practising Certificate Number P07174.

### **Elite Partners CPA Limited**

*Certified Public Accountants*

Hong Kong, 22 June 2020

10/F., 8 Observatory Road

Tsim Sha Tsui

Kowloon, Hong Kong



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Revenue</b>	5	<b>181,367</b>	290,231
Cost of services rendered		<b>(129,758)</b>	(196,996)
Gross profit		<b>51,609</b>	93,235
Other income and other gains	6	<b>317,235</b>	7,907
Selling and distribution costs		<b>(2,823)</b>	(5,350)
Administrative and other expenses		<b>(770,906)</b>	(147,231)
Finance costs	7	<b>(34,129)</b>	(33,743)
Fair value change on contingent consideration		<b>(1,351)</b>	(11,385)
Share of results of an associate		<b>(891)</b>	(761)
Share of results of a joint venture	18	<b>(1)</b>	499
<b>Loss before taxation</b>	7	<b>(441,257)</b>	(96,829)
Income tax	10	<b>19,395</b>	(7,592)
<b>Loss for the year</b>		<b>(421,862)</b>	(104,421)
<b>Other comprehensive (loss)/income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Fair value changes of financial assets at fair value through other comprehensive income ("FVTOCI")		<b>1,642</b>	(20,031)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		<b>(4,391)</b>	(5,426)
Foreign currency translation reserve realised on disposal of subsidiaries		<b>43</b>	–
Share of other comprehensive loss of a joint venture		<b>57</b>	(171)
		<b>(2,649)</b>	(25,628)
<b>Total comprehensive loss for the year</b>		<b>(424,511)</b>	(130,049)
<b>Loss attributable to:</b>			
Equity holders of the Company		<b>(419,868)</b>	(101,728)
Non-controlling interests		<b>(1,994)</b>	(2,693)
		<b>(421,862)</b>	(104,421)
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Company		<b>(422,413)</b>	(127,420)
Non-controlling interests		<b>(2,098)</b>	(2,629)
		<b>(424,511)</b>	(130,049)
<b>Loss per share</b>	12		
Basic		<b>HK(21.38) cents</b>	HK(5.24) cents
Diluted		<b>HK(21.38) cents</b>	HK(5.24) cents



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	1,977	8,742
Right-of-use assets	14	5,180	–
Intangible assets	15	266,507	288,069
Goodwill	16	145,152	641,087
Interest in an associate	17	591	1,495
Interest in joint ventures	18	–	5,627
Financial assets at FVTOCI	19	62,148	60,506
Deposits for acquisition of unlisted investments	19	–	2,340
Deposit for film production		99,555	99,628
Loans to and due from joint ventures	21	–	–
Prepayments	25	54,135	74,739
		<b>635,245</b>	1,182,233
<b>Current assets</b>			
Inventories	22	17,022	121,490
Derivative financial assets	20	–	7,143
Financial assets at fair value through profit or loss	23	1,091	19,503
Investment in TV-show	24	52,698	–
Accounts and other receivables	25	86,442	97,930
Bank balances and cash	26	32,568	78,776
Tax receivable		573	–
Non-current asset and assets of disposal group classified as held for sale	27	13,769	7,271
		<b>204,163</b>	332,113
<b>Current liabilities</b>			
Accounts and other payables	28	52,933	54,461
Interest-bearing borrowings	29	–	4,538
Lease liabilities	30	3,150	–
Tax payable		18,346	18,346
Contingent consideration-convertible bonds	36	–	212,314
Liabilities of disposal group classified as held for sale	27	4,310	1,067
		<b>78,739</b>	290,726
<b>Net current assets</b>		<b>125,424</b>	41,387
<b>Total assets less current liabilities</b>		<b>760,669</b>	1,223,620



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current liabilities</b>			
Convertible bonds	31	401,834	397,439
Lease liabilities	30	2,150	–
Deferred tax liabilities	35	31,305	52,660
		<b>435,289</b>	450,099
<b>NET ASSETS</b>			
<b>Capital and reserves</b>			
Share capital	32	80,807	77,607
Reserves		250,313	694,666
Equity attributable to equity holders of the Company		<b>331,120</b>	772,273
Non-controlling interests		(5,740)	1,248
<b>TOTAL EQUITY</b>		<b>325,380</b>	773,521

Approved and authorised for issue by the Board of Directors on 22 June 2020 and signed on its behalf by

**Hsu Tung Chi**  
Director

**Zhang Jing**  
Director





# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to equity holders of the Company																						
	Reserves													Non-controlling interests	Total								
	Share capital	Share premium	Special reserve	Capital reserve	Foreign currency translation reserve	Share option reserve	Statutory reserve	Convertible bonds reserve	FVTOCI reserve	Accumulated losses	Total reserves	Subtotal	Non-controlling interests										
													HK\$'000			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Note (i))													(Note (ii))			(Note (iii))	(Note (iv))	(Note 42 (a)(iv))	(Note (iii))				
<b>At 1 January 2018</b>	77,607	948,417	10,084	(20,749)	370	-	8,731	60,928	-	(187,439)	820,342	897,949	(1,180)	896,769									
Effect on initial application of HKFRS 9	-	-	-	-	-	-	-	-	964	(3,102)	(2,138)	(2,138)	-	(2138)									
Adjusted balance at 1 January 2018	77,607	948,417	10,084	(20,749)	370	-	8,731	60,928	964	(190,541)	818,204	895,811	(1,180)	894,631									
Loss for the year	-	-	-	-	-	-	-	-	-	(101,728)	(101,728)	(101,728)	(2,693)	(104,421)									
<b>Other comprehensive income</b>																							
<i>Items that will not be reclassified to profit or loss</i>																							
Fair value change of FVTOCI	-	-	-	-	-	-	-	-	(20,031)	-	(20,031)	(20,031)	-	(20,031)									
<i>Items that may be reclassified subsequently to profit or loss</i>																							
Foreign currency translation differences	-	-	-	-	(5,490)	-	-	-	-	-	(5,490)	(5,490)	64	(5,426)									
Share of other comprehensive loss of a joint venture	-	-	-	-	(171)	-	-	-	-	-	(171)	(171)	-	(171)									
<b>Other comprehensive (loss) income for the year</b>	-	-	-	-	(5,661)	-	-	-	(20,031)	-	(25,692)	(25,692)	64	(25,628)									
<b>Total comprehensive (loss) income for the year</b>	-	-	-	-	(5,661)	-	-	-	(20,031)	(101,728)	(127,420)	(127,420)	(2,629)	(130,049)									
<b>Transactions with equity holders</b>																							
<i>Capital contribution by non-controlling interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	5,057	5,057									
Share-based payment	-	-	-	-	-	3,932	-	-	-	-	3,932	3,932	-	3,932									
Repurchase of shares	-	-	(50)	-	-	-	-	-	-	-	(50)	(50)	-	(50)									
<b>Total transactions with equity holders</b>	-	-	(50)	-	-	3,932	-	-	-	-	3,882	3,882	5,057	8,939									
<b>At 31 December 2018</b>	77,607	948,417	10,034	(20,749)	(5,291)	3,932	8,731	60,928	(19,067)	(292,269)	694,666	772,273	1,248	773,521									



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

## Notes:

- (i) The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group Reorganisation took place in 2003. Also included the repurchase of shares and derecognition of contingent shares during the year ended 31 December 2019.
- (ii) The capital reserve represents the share of net liabilities of additional interest in subsidiaries acquired without change in control.
- (iii) Statutory reserve comprises statutory surplus reserves fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the Articles of Association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.
- (iv) Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to equity holders of the Company													
	Reserves											Subtotal	Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Capital reserve	Foreign	Share option reserve	Statutory reserve	Convertible		FVTOCI reserve	Accumulated losses			
					currency translation reserve			bonds	reserves					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 1 January 2019</b>	77,607	948,417	10,034	(20,749)	(5,291)	3,932	8,731	60,928.00	(19,067)	(292,269)	694,666	772,273	1,248	773,521
Loss for the year	-	-	-	-	-	-	-	-	-	(419,868)	(419,868)	(419,868)	(1,994)	(421,862)
<b>Other comprehensive income</b>														
Items that will not be reclassified to profit or loss														
Fair value change of FVTOCI	-	-	-	-	-	-	-	-	1,642	-	1,642	1,642	-	1,642
Items that may be reclassified subsequently to profit or loss														
Foreign currency translation differences	-	-	-	-	(4,244)	-	-	-	-	-	(4,244)	(4,244)	(104)	(4,348)
Foreign currency translation reserve realised on disposal of subsidiaries	-	-	-	-	(43)	-	-	-	-	43	-	-	-	-
Share of other comprehensive loss of a joint venture	-	-	-	-	57	-	-	-	-	-	57	57	-	57
<b>Other comprehensive income (loss) for the year</b>	-	-	-	-	(4,230)	-	-	-	1,642	43	(2,545)	(2,545)	(104)	(2,649)
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	(4,230)	-	-	-	1,642	(419,825)	(422,413)	(422,413)	(2,098)	(424,511)
<b>Transactions with equity holders</b>														
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,890)	(4,890)
Issue of shares under subscription	3,200	7,040	-	-	-	-	-	-	-	-	7,040	10,240	-	10,240
Share-based payment	-	-	-	-	-	4,654	-	-	-	-	4,654	4,654	-	4,654
Lapsed of share options	-	-	-	-	-	(1,356)	-	-	-	1,356	-	-	-	-
Repurchase of shares	-	-	(156)	-	-	-	-	-	-	-	(156)	(156)	-	(156)
Derecognition of contingent consideration	-	-	(33,478)	-	-	-	-	-	-	-	(33,478)	(33,478)	-	(33,478)
Derecognition of convertible bond	-	-	-	-	-	-	-	(9,056)	-	9,056	-	-	-	-
<b>Total transactions with equity holders</b>	3,200	7,040	(33,634)	-	-	3,298	-	(9,056)	-	10,412	(21,940)	(18,740)	(4,890)	(23,630)
<b>At 31 December 2019</b>	80,807	955,457	(23,600)	(20,749)	(9,521)	7,230	8,731	51,872	(17,425)	(701,862)	250,313	331,120	(5,740)	325,380



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(441,257)	(96,829)
Depreciation and amortisation	30,487	18,033
Allowance provided for doubtful debts	41,463	6,010
Write-off of deposit for acquisition of unlisted investment	4,680	–
Gain on disposal of a subsidiary	(60,505)	–
Gain on disposal of right-of-use assets	(80)	–
Gain on derecognition of convertible bonds	(12,360)	–
Gain on derecognition of contingent consideration	(240,000)	–
Fair value change on financial assets		
at fair value through profit or loss	2,712	(664)
Fair value loss on contingent consideration	1,351	11,385
Equity-settled share-based payment	4,654	3,932
Impairment loss on intangible assets	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	–
Impairment loss on TV show	9,702	–
Loss on disposal of property, plant and equipment	3	–
Share of results of an associate	891	761
Share of results of a joint venture	1	(499)
Interest income	(1,154)	(272)
Interest expense	34,129	33,743
Written-down of inventories	39,000	25,175
Changes in working capital:		
Accounts and other receivables	(69,634)	55,261
Accounts and other payables	(305)	(61,482)
Inventories	65,392	(5,846)
<b>Cash (used in)/generated from operations</b>	<b>(14,937)</b>	<b>15,921</b>
Interest paid	(17,115)	(17,804)
Income taxes paid	(2,533)	(11,114)
<b>Net cash (used in) from operating activities</b>	<b>(34,585)</b>	<b>(12,997)</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Deposits for unlisted investment		(2,340)	(2,340)
Deposits for film production		(1,702)	(99,628)
Purchase of property, plant and equipment		(554)	(1,832)
Purchase of intangible assets		(81,200)	(35,000)
Purchase of financial assets at fair value through profit or loss		–	(15,700)
Net cash effect of disposal of subsidiaries	37	69,841	–
Interest received		115	272
Repayment from the investment in convertible notes classified as financial assets at fair value through profit or loss		6,285	–
<b>Net cash used in investing activities</b>		<b>(9,555)</b>	<b>(154,228)</b>
<b>FINANCING ACTIVITIES</b>			
New bank loans raised		–	22,955
Proceeds from issue of new shares		10,240	–
Repayment of bank loans		(4,538)	(37,669)
Repayment of other loan		–	(659)
Repayments to directors		(988)	(2,380)
Repayment of lease liabilities		(4,633)	–
Repurchase of shares		(156)	(50)
<b>Net cash used in financing activities</b>		<b>(75)</b>	<b>(17,803)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(44,215)</b>	<b>(185,028)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>78,989</b>	<b>268,969</b>
Effect of foreign exchange rate changes, net		(2,110)	(4,952)
<b>Cash and cash equivalents at end of year</b>	26	<b>32,664</b>	<b>78,989</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash		32,568	78,776
Cash and cash equivalents included in assets classified as held for sale		96	213
Cash and cash equivalents as stated in the consolidated statement of cash flows		32,664	78,989



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)(Continued)**

#### **New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)**

*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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

#### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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
<b>Non-current assets</b>			
Right-of-use assets	–	10,406	10,406
<b>Current liabilities</b>			
Lease liabilities	–	(3,448)	(3,448)
<b>Non-current liabilities</b>			
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.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

#### New and amendments to HKFRSs in issue but not yet effective

HKFRS 17	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 3	Definition of Business <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current <sup>5</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>4</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> 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

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>5</sup> 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 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.

#### 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) 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”).

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Going concern basis** *(Continued)*

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.

### **Basis of measurement**

The measurement basis used in the preparation of these consolidated financial statements is historical cost except for financial assets at fair value through profit or loss, derivative financial assets, financial assets at fair value through other comprehensive income and contingent consideration – convertible bonds, which are measured at fair value as explained in the accounting policy as set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Basis of measurement** (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from equity holders of the Company, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

### **Allocation of total comprehensive income**

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation** *(Continued)*

#### **Changes in ownership interest**

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

#### **Subsidiaries**

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an investment in subsidiary is stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### **Associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

The Group's investment in associate or joint venture is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Associates and joint ventures (Continued)**

Goodwill arising on an acquisition of an associate or a joint venture is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or joint venture. Such goodwill is included in interests in associates or joint ventures. On the other hand, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate or vice versa, any retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, on the loss of significant influence or joint control, the Group remeasures any retained interest in the former investee at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the partial interest in the investee and the carrying amount of the investment at the date when significant influence or joint control is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former investee are accounted for on the same basis as would be required if the former investee had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be an associate or joint venture is regarded as the fair value on initial recognition as a financial asset.

In the Company's statement of financial position which is presented within these notes, an investment in associates and joint ventures is stated at cost less impairment loss determined on individual basis.

### **Goodwill**

Goodwill arising on an acquisition of a business is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired business.

Goodwill on acquisition of business is recognised as a separate asset and is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

On the other hand, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as an income from bargain purchase.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	under the lease term
Computer equipment	33 $\frac{1}{3}$ %
Furniture, fixtures and office equipment	18% to 20%
Motor vehicles	10%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

### Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated lives are as follows:

Broadcasting and software license rights	20% to 33 $\frac{1}{3}$ %
Image rights in eSports field	16 $\frac{2}{3}$ % to 33 $\frac{1}{3}$ %
Usage right of movie database	10%
Exclusive operation rights – after launch of theme park	remaining years to operate
Contract backlog	term of contracts
Agency license	term of license
Trademark	10 years
Music license	5 years
Usage right of electric game	10 years

Both the period and method of amortisation are reviewed annually.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Intangible assets (Continued)

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are amortised over the estimated useful lives and stated at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### Other financial assets

##### Classification of financial assets

*Investments in equity securities (other than investments in subsidiaries, associates and joint ventures)*

An investment in equity securities is measured fair value on initial recognition. An investment in equity securities is subsequently measured at fair value through profit or loss ("FVTPL") unless the investment is designated as at fair value through other comprehensive income ("FVTOCI") on initial recognition of the investment. Under HKFRS 9, an investment in equity securities can be designated as at FVTOCI on an instrument-by-instrument basis provided that the investment is neither held-for-trading nor contingent consideration recognised by the Group in a business combination to which HKFRS 3 applies.

For investments in equity securities designated as at FVTOCI (as described above), fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (equity investment) reserve". Such fair value changes will not be reclassified to profit or loss when the investments are derecognised. However, they will be transferred to the Group's retained earnings when the investments are derecognised.

For investments in equity securities that are held-for-trading or not designated as at FVTOCI (as described above), they are subsequently measured at fair value through profit or loss (FVTPL) such that changes in fair value are recognised in profit or loss.

An investment in equity securities is derecognised when the Group sells the investment.

*Investments in debt securities*

An investment in debt securities is classified as follows depending on the instruments' contractual cash flow characteristics and the Group's business model for managing the investment:

- Amortised cost when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows;
- FVTOCI when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset;
- FVTPL when either (a) the contractual terms of the asset give rise on specified dates to cash flows that are not solely payment of principal and interest on the principal amount outstanding or (b) the financial asset is held within a business whose objective is neither (i) collecting contractual cash flows nor (ii) collecting contractual cash flows and selling the financial asset.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Other financial assets** (Continued)

#### **Classification of financial assets** (Continued)

##### *Investments in debt securities* (Continued)

For investments in debt securities subsequently measured at FVTOCI, fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (debt investment) reserve" except for impairment loss (see below) and foreign exchange gains or losses. Interest income is calculated using the effective interest method and is recognised in profit or loss. When an investment in debt securities is derecognised, the fair value changes previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

An investment in debt securities is derecognised when the Group sells the investment or when the contractual rights to the cash flows from the asset expire.

##### *Transaction costs*

Transaction costs directly attributable for the acquisition of financial assets (other than those classified or designated as at FVTPL) are included in the initial measurement of the financial assets. For financial assets subsequently measured at amortised cost, such transaction costs are included in the calculation of amortised cost using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets). For investments in equity securities at FVTOCI, such transaction costs are recognised in other comprehensive income as part of change in fair value at the next remeasurement. For investments in debt securities classified as FVTOCI, such transaction costs are amortised to profit or loss using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets).

#### **Impairment on financial assets**

The Group has applied the expected credit loss model under HKFRS 9 to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents and accounts receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;

Expected credit loss ("ECL") of a financial asset is measured based on an unbiased and probability-weighted amount. It also reflects the time value of money and reasonable and supportable information that is available to the Group without undue cost or effect at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL is measured on either of the following bases:

- 12-month expected credit loss when, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition; and
- Lifetime expected credit loss when (a) at the reporting date, the credit risk on a financial asset has increased significantly since initial recognition; or (b) at the reporting date, the financial asset has become credit-impaired.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Other financial assets** (Continued)

#### **Impairment on financial assets** (Continued)

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers quantitative and qualitative reasonable and supportable information that is available to the Group without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Specifically, the following information has been taken into account in assessing whether the credit risk on a financial asset has significantly increased since initial recognition:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception;
- Significant changes in terms of existing financial assets if the asset was newly originated or issued at the reporting date;
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- An actual or expected significant change in the financial instrument's external credit rating;
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations (e.g. actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates);
- Actual or expected significant change in the operating results of the borrower;
- Significant change in the quality of guarantee provided;
- Contractual cash flows are more than 30 days past due.

In making the abovementioned assessment, the Group considers that a default occurs when (a) it is unlikely that the borrower will be able to settle his/her debts in full and (b) the financial asset is more than 90 days past due.

ECL is remeasured at the end of each reporting period to reflect changes in financial asset's credit risk since initial recognition. Changes in ECL are recognised in profit or loss with the corresponding adjustment to the carrying amount of the asset through a loss allowance account, except for investments in debt securities that are subsequently measured at FVTOCI for which the corresponding adjustment is recognised in other comprehensive income and accumulated in "FVTOCI (debt investment) reserve".

For accounts receivables and contract assets without significant financing component, ECL is always measured at an amount equal to lifetime expected credit losses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Other financial assets** *(Continued)*

#### **Impairment on financial assets** *(Continued)*

At the end of each of the reporting period, the Group assesses whether its financial assets have become credit impaired.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts.

#### **Accounts and other receivables**

Accounts receivables are recognised when the Group has an unconditional right to receive consideration. The Group has an unconditional right to receive consideration when only the passage of time is required before payment of the consideration is due.

For the Group's accounts receivables, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular debtors and (b) forward-looking information based on the current and forecast general economic conditions available to the Group without undue cost or effort at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the accounts receivables through a loss allowance account.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts (e.g future for a debt to make contractual payments of more than 90 days).

#### **Contract assets and contract liabilities**

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with a customer, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities arising from unrelated multiple contracts are not presented on a net basis.

For the Group's contract assets, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular customers available and (b) forward-looking information based on the current and forecast general economic conditions at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the contract assets through a loss allowance account.

The Group directly reduces the gross carrying amount of a contract asset when the Group has no reasonable expectations of recovering a contract asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the Group is unable to recover the costs.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Non-current assets held for sale**

The Group classified a non-current asset (or disposal group) as held for sale when its carrying amount will be reversed principally through a sale transaction rather than through continuing use. Such non-current asset (or disposal group) is measured at the lower of its carrying amount and fair value less costs to sell.

### **Financial liabilities and equity**

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

### **Financial liabilities at amortised cost**

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Financial liabilities and equity** *(Continued)*

#### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### **Derecognition**

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

#### **Contingent consideration**

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

#### **Convertible bond**

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of issue costs. The corresponding dividends on those shares are charged as interest expense in profit or loss.

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond equity reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond equity reserve is transferred to accumulated profits/losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Convertible bond (Continued)**

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

### **Cash equivalents**

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

### **Revenue recognition**

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to the product create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators. Accordingly, the sales of products is considered to be performance obligation satisfied at a point in time.

Income from licensing of broadcasting right for entertainment and sports event content is recognised over the contract period in accordance with the terms of the underlying contracts.

Sale of entertainment content and products is recognised on transfer of respective rights in accordance with the respective agreement and on delivery of the content concerned, if applicable.

Consultancy service income relating to organise music concert and system development business is recognised when services are rendered.

Commission income from assisting professional athletes in marketing and promotional activities is recognised on a time proportion basis according to the terms of the underlying contracts.

Sale of athletes' agency agreements is recognised on the execution of a binding agreement.

Theme park operation service income is recognised when services are rendered.

Event production and online broadcasting income from organising and arranging for the production of the event or online broadcasting show and broadcasting on the platform is recognised when services are rendered.

Income for managing eSports teams and eSports broadcasters is recognised when services are rendered.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Foreign currency translation**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;
- Income and expenses for each statement of comprehensive income are translated at average exchange rate;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;
- On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;
- On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and
- On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **Impairment of other assets, other than goodwill**

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, intangible assets and investments in joint ventures may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Leasing**

#### **Under HKAS 17 (prior to 1 January 2019)**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statements of financial position as obligations under finance leases. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### **Upon the adoption of HKFRS 16 on 1 January 2019**

#### *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**

#### *Short-term leases*

The Group applies the short-term lease recognition exemption to leases of leasehold properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

#### *Right-of-use assets*

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease. 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; and
- any initial direct costs incurred by the Group.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Leasing** (Continued)

#### **As a lessee** (Continued)

##### *Right-of-use assets (Continued)*

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 as a separate line in the consolidated statement of financial position.

##### *Refundable rental deposits*

Refundable rental deposits paid are accounted under 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.

##### *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.

##### *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 lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the 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 expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Employee benefits**

#### **Short-term employee benefits**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

#### **Defined contribution plans**

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Pursuant to the law and regulations of the People's Republic of China (the "PRC"), contributions to the defined contribution retirement schemes for the Group's PRC staff are made to the relevant government authorities in the PRC, which are calculated on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

### **Share-based payment transactions**

#### **Equity-settled transactions**

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account any market conditions and non-vesting conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are to be fulfilled, ending on the date on which the entitlement of relevant employees to the award is no longer conditional on the satisfaction of any non-market vesting conditions ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the reserve within equity.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Share-based payment transactions** *(Continued)*

#### **Equity-settled transactions** *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted. In all cases, the fair value is measured at the date the Group obtains the goods or the counterparty renders the services.

### **Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Related parties**

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of the parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision makers, who are the directors of the Company, for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

#### (a) Critical judgements made in applying accounting policies

##### *Subsidiary governed under contractual arrangements*

The Group had entered into a set of control agreements and supplemental agreements (the "Control Agreements") with 北京東方力恆影視傳媒有限公司 (unofficial English name as Beijing Orient Liheng Television Media Company Limited, "Liheng") and the two legal owners of Liheng on 10 November 2014 and 30 December 2014 respectively. In accordance with the terms of the Control Agreements, the Group controls Liheng because:

- (i) the board of directors of Liheng is controlled by the Group pursuant to the management appointment agreements and the directors' undertakings;
- (ii) the general meeting of Liheng is controlled by the Group pursuant to the shareholders' undertakings and the directors' undertakings; and
- (iii) all the benefits arising from the equity interests in Liheng is entirely conveyed to the Group pursuant to the share charge and the exclusive consultancy service agreement.

The Group believes that, notwithstanding the lack of equity ownership, the Control Agreements give the Group control over Liheng in substance. Accordingly, Liheng is accounted for as a subsidiary of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Critical accounting estimates and judgements** *(Continued)*

#### **(b) Key sources of estimation uncertainty**

##### *Impairment on accounts and other receivables*

The Group's accounts and other receivables are assessed for impairment based on the expected loss model required by HKFRS 9. The assessment made by management has taken into account relevant historical information adjusted for forward looking information available to management at the date of assessment (to the extent that such information is reasonable and supportable without undue cost or effort). Impairment losses are also recognised for the current year (please see Notes 24). Management has exercised judgment in estimating the amount of expected credit loss. If the actual outcome is different from management's estimate, an additional impairment loss or reversal of impairment loss may arise.

##### *Fair value estimate of certain assets*

Some of the Group's assets (e.g. financial assets and financial liabilities) are measured at fair value at the end of the reporting period. In determining the fair value of these assets and liabilities at the end of reporting period, various inputs that reflect current market conditions, including both observable and unobservable data, are used. When there are material changes to those inputs, there will be a material change in the fair value of these assets. Please see Notes 19, 20, 23 and 36 for details.

##### *Allowance for inventories*

The Group's management reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group's management carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

##### *Impairment of goodwill*

The Group's management determines whether goodwill is impaired at least on an annual basis or more frequently if there is any indication of impairment loss. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 16 to the consolidated financial statements.

##### *Intangible assets and amortisation*

The Group's management determines the estimated useful lives and related amortisation for the Group's intangible assets. At the end of each reporting period, the Group's management reviews the carrying amounts of its intangible assets with finite useful lives to determine whether there is an indication that the intangible assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with finite useful lives are amortised over the expected useful economic lives.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Critical accounting estimates and judgements** *(Continued)*

#### **(b) Key sources of estimation uncertainty** *(Continued)*

##### *Income taxes*

The Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

## 4. SEGMENTAL INFORMATION

The Group manages its businesses by individual companies, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's directors for the purposes of resource allocation and performance assessment, the Group has presented the following reporting segments. No operating segments have been aggregated to form the following reporting segments.

- Entertainment segment which engages in the business of training, nurturing and managing eSports teams and eSports broadcasters, distribution of copyright-protected items, licensing of entertainment content, production of television drama series and talent management, provision of consultancy services in cultural industry and provision of entertainment-related services;
- Sports segment which engages in licensing of professional sports events content and provision of marketing and promotional services to professional athletes; and
- Theme park segment which engages in operating film-based cultural parks and tourism focused projects.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 4. SEGMENTAL INFORMATION (Continued)

### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

#### Year ended 31 December 2019

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
<b>Segment revenue</b>				
Sale to external customers	137,562	32,694	11,111	181,367
<b>Timing of revenue recognition</b>				
Point in time	107,510	32,694	4,930	145,134
Over time	30,052	–	6,181	36,233
	137,562	32,694	11,111	181,367
Segment results before the following items:	(44,298)	(1,174)	762	(44,710)
Fair value change on contingent consideration	(4,485)	–	3,134	(1,351)
Gain on derecognition of contingent consideration	–	–	240,000	240,000
Gain on disposal of subsidiaries	60,505	–	–	60,505
Gain on derecognition of convertible notes	–	–	12,360	12,360
Impairment on goodwill	(138,852)	(52,229)	(304,854)	(495,935)
Impairment on intangible assets	–	–	(79,310)	(79,310)
Impairment on interest in joint ventures	(648)	–	–	(648)
Share of results of an associate	(891)	–	–	(891)
Share of results of a joint venture	(1)	–	–	(1)
Written down of inventories	(39,000)	–	–	(39,000)
Allowance for doubtful debts	(21,823)	–	–	(21,823)
Allowance for doubtful debts on loans to and due from joint ventures	(1,185)	–	–	(1,185)
<b>Segment results</b>	<b>(190,678)</b>	<b>(53,403)</b>	<b>(127,908)</b>	<b>(371,989)</b>
Unallocated income				1,076
Unallocated expenses				(70,344)
Loss before taxation				(441,257)
Income tax	(81)	(179)	19,655	19,395
Loss for the year				(421,862)





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 4. SEGMENTAL INFORMATION (Continued)

### (a) Segment revenue and results (Continued)

Year ended 31 December 2018

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
<b>Segment revenue</b>				
Sale to external customers	235,350	42,518	12,363	290,231
<b>Timing of revenue recognition</b>				
Point in time	144,890	35,300	–	180,190
Over time	90,460	7,218	12,363	110,041
	235,350	42,518	12,363	290,231
Segment results before the following items:	(8,731)	14,949	5,958	12,176
Fair value change on contingent consideration	(4,690)	–	(6,695)	(11,385)
Impairment of goodwill	(18,545)	–	–	(18,545)
Share of results of an associate	(761)	–	–	(761)
Share of results of a joint venture	499	–	–	499
Written down of inventories	(25,175)	–	–	(25,175)
Allowance for doubtful debts on loans to and due from joint ventures	(2,767)	–	–	(2,767)
<b>Segment results</b>	(60,170)	14,949	(737)	(45,958)
Unallocated income				2,153
Unallocated expenses				(53,024)
Loss before taxation				(96,829)
Income tax	(2,998)	(2,874)	(1,720)	(7,592)
Loss for the year				(104,421)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements. Segment results represent the results achieved by each segment without allocation of central administration costs including directors' emoluments, investment and other income and other gains and losses. This is the measurement method reported to the chief operating decision makers, who are the directors of the Company, for the purposes of resource allocation and assessment of segment performance.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 4. SEGMENTAL INFORMATION (Continued)

### (b) Segment assets and liabilities

As at 31 December 2019

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
<b>Assets before the following items:</b>	<b>174,189</b>	<b>18,794</b>	<b>158,934</b>	<b>351,917</b>
Goodwill	91,746	53,406	–	145,152
Intangible assets	145,797	–	120,710	266,507
Interest in an associate	591	–	–	591
<b>Segment assets</b>	<b>412,323</b>	<b>72,200</b>	<b>279,644</b>	<b>764,167</b>
Unallocated assets				75,241
Consolidated total assets				<b>839,408</b>
<b>Segment liabilities</b>	<b>53,863</b>	<b>17,033</b>	<b>26,713</b>	<b>97,609</b>
Unallocated liabilities				416,419
Consolidated total liabilities				<b>514,028</b>

As at 31 December 2018

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
<b>Assets before the following items:</b>	<b>329,829</b>	<b>28,744</b>	<b>105,048</b>	<b>463,621</b>
Goodwill	230,598	105,635	304,854	641,087
Intangible assets	84,000	–	204,069	288,069
Interest in joint ventures	5,627	–	–	5,627
Interest in an associate	1,495	–	–	1,495
<b>Segment assets</b>	<b>651,549</b>	<b>134,379</b>	<b>613,971</b>	<b>1,399,899</b>
Unallocated assets				114,447
Consolidated total assets				<b>1,514,346</b>
<b>Segment liabilities</b>	<b>45,097</b>	<b>20,168</b>	<b>268,051</b>	<b>333,316</b>
Unallocated liabilities				407,509
Consolidated total liabilities				<b>740,825</b>

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments; and
- All liabilities are allocated to the sales/service activities of individual segment.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 4. SEGMENTAL INFORMATION (Continued)

### (c) Other segment information

Year ended 31 December 2019

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
Amortisation of intangible assets	(19,814)	–	(3,488)	(23,302)
Depreciation of property, plant and equipment	(2,640)	–	(4)	(2,644)
Allowance for doubtful debt	(21,823)	–	–	(21,823)
Write-down of inventories	(39,000)	–	–	(39,000)
Capital expenditure	(67,206)	–	–	(67,206)
Impairment loss on goodwill	(138,852)	(52,229)	(304,854)	(495,935)
Impairment loss on intangible assets	–	–	(79,310)	(79,310)
Impairment on interest in joint ventures	(648)	–	–	(648)

Year ended 31 December 2018

	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
Amortisation of intangible assets	(15,334)	–	–	(15,334)
Depreciation of property, plant and equipment	(2,691)	–	(8)	(2,699)
Allowance for doubtful debt	(6,190)	–	–	(6,190)
Write-down of inventories	(25,175)	–	–	(25,175)
Capital expenditure	(1,824)	–	(35,008)	(36,832)
Impairment loss on goodwill	(18,545)	–	–	(18,545)
Impairment loss on intangible assets	(7,868)	–	–	(7,868)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 4. SEGMENTAL INFORMATION (Continued)

### (d) Geographic information

The Group's operations are principally located in Hong Kong, Taiwan and the PRC.

The Group's revenue from external customers by location of its customers and information about its non-currents assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong	1,604	8,084	76,794	177,433
The PRC	165,691	267,972	492,333	851,326
Taiwan	11,207	11,596	3,284	8,671
USA	2,865	2,579	95	96
	<b>181,367</b>	290,231	<b>572,506</b>	1,037,526

Non-current assets presented above exclude financial instruments, interest in an associate and interest in joint ventures.

### (e) Information about major customers

Revenue from external customers contributing 10% or more of total revenue from the Group's Entertainment, Sports and Theme park segments are as follows:

Customer	Segment	2019 HK\$'000	2018 HK\$'000
A	Entertainment	N/A (Note)	49,000
B	Sports	N/A (Note)	35,300
C	Entertainment	N/A (Note)	31,200
D	Entertainment	45,947	N/A (Note)
E	Entertainment	34,000	N/A (Note)
F	Entertainment	27,800	N/A (Note)

Other than as disclosed above, no other sales to a single customer of the Group accounted for 10% or more of total revenue of the Group for both years.

Note: The corresponding revenue did not contribute over 10% of the total revenue of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 5. REVENUE

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

	2019 HK\$'000	2018 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
<b>Total revenue</b>	<b>181,367</b>	<b>290,231</b>

## 6. OTHER INCOME AND OTHER GAINS

	2019 HK\$'000	2018 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
	<b>317,235</b>	<b>7,907</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	2019 HK\$'000	2018 HK\$'000
<b>Finance costs</b>		
Interest on convertible bonds	33,786	32,908
Interest on bank loans	84	835
Interest on lease liabilities	259	–
	<b>34,129</b>	<b>33,743</b>
<b>Other items</b>		
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
	<b>28,999</b>	<b>35,307</b>
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	–



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 8. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments received and receivable by the Company's directors are as follows:

	Directors' fees HK\$'000	Salaries and allowances HK\$'000	Equity-settle share-based payment HK\$'000	Contribution to defined contribution retirement schemes HK\$'000	Total HK\$'000
<b>Year ended 31 December 2019</b>					
<b>Executive directors</b>					
Hsu Tung Sheng (resigned on 17 May 2019)	45	332	221	-	598
Hsu Tung Chi	120	876	616	36	1,648
Lai Kwok Fai, Franki (resigned on 13 March 2020)	240	1,084	-	18	1,342
Zhang Jing	240	-	-	-	240
	645	2,292	837	54	3,828
<b>Independent non-executive directors</b>					
Kwok Chi Sun, Vincent	60	-	-	-	60
Wong Tak Shing	60	-	-	-	60
Gou Yanlin	60	-	-	-	60
	180	-	-	-	180
	825	2,292	837	54	4,008



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 8. DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees HK\$'000	Salaries and allowances HK\$'000	Equity-settle share-based payment HK\$'000	Contribution to defined contribution retirement schemes HK\$'000	Total HK\$'000
<b>Year ended 31 December 2018</b>					
<b>Executive directors</b>					
Hsu Tung Sheng	120	876	512	–	1,508
Hsu Tung Chi	120	1,251	512	26	1,909
Lai Kwok Fai, Franki	240	944	–	16	1,200
Zhang Jing	240	–	–	–	240
	720	3,071	1,024	42	4,857
<b>Independent non-executive directors</b>					
Kwok Chi Sun, Vincent	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
Gou Yanlin	60	–	–	–	60
	180	–	–	–	180
	900	3,071	1,024	42	5,037





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 8. DIRECTORS' EMOLUMENTS (Continued)

The directors of the Company are regarded as the key management personnel of the Group for disclosure purposes.

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2019 and 2018. In addition, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join, or upon joining the Group or as a compensation for loss of office for the years ended 31 December 2019 and 2018.

Except as disclosed in note 25 to these consolidated financial statements, there were no loans, quasi-loans or other dealings in favour of the directors of the Company that were entered into or subsisted during the years ended 31 December 2019 and 2018.

The directors of the Company are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company or a connected entity of a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2018: three) directors, details of whose remuneration are set out in note 8 to the consolidated financial statements above. Details of the remuneration of the remaining two (2018: two) highest paid individuals, who are not directors, for the years ended 31 December 2019 and 2018 are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and allowances	1,322	1,677
Contribution to defined contribution retirement schemes	61	194
Equity-settled share-based payment	571	425
	<b>1,954</b>	<b>2,296</b>

The above two (2018: two) highest paid individuals fell within the following bands:

	2019	2018
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<b>2</b>	<b>2</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 10. 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
<i>Hong Kong Profits Tax</i>		
Current year provision	2,145	3,221
(Over) Underprovision in prior year	(155)	849
<i>EIT</i>		
Current year provision	17	3,641
(Over) Underprovision in prior year	(47)	1,235
<i>Deferred tax</i>		
In respect of current year	(21,355)	(1,354)
<b>Total tax (credit)/expense for the year</b>	<b>(19,395)</b>	<b>7,592</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 10. INCOME TAX (Continued)

### Reconciliation of effective tax rate

	2019	2018
	%	%
Income tax at applicable tax rate	19.48	(4.32)
Non-deductible expenses	9.49	(1.48)
Non-taxable revenue	(22.71)	1.21
Unrecognised temporary differences	(0.01)	0.10
Unrecognised tax losses	(1.91)	(1.20)
Over (Underprovision) in prior year	0.05	(2.15)
Effective tax rate for the year	4.39	(7.84)

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

## 11. DIVIDENDS

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

## 12. 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amount					
– year ended 31 December 2018					
At beginning of reporting period	8,805	610	746	6	10,167
Additions	1,352	200	280	–	1,832
Depreciation	(2,253)	(272)	(174)	–	(2,699)
Transfer to assets held for sale (note 27)	–	(252)	–	–	(252)
Effect on foreign currency exchange differences	(259)	(24)	(23)	–	(306)
<b>At end of reporting period</b>	<b>7,645</b>	<b>262</b>	<b>829</b>	<b>6</b>	<b>8,742</b>
<b>Reconciliation of carrying amount</b>					
<b>– year ended 31 December 2019</b>					
At beginning of reporting period	<b>7,645</b>	<b>262</b>	<b>829</b>	<b>6</b>	<b>8,742</b>
Additions	<b>524</b>	<b>–</b>	<b>30</b>	<b>–</b>	<b>554</b>
Depreciation	<b>(2,295)</b>	<b>(139)</b>	<b>(184)</b>	<b>–</b>	<b>(2,618)</b>
Disposal	<b>–</b>	<b>(3)</b>	<b>–</b>	<b>–</b>	<b>(3)</b>
Transfer to assets held for sale (note 27)	<b>(4,245)</b>	<b>(53)</b>	<b>(341)</b>	<b>–</b>	<b>(4,639)</b>
Effect on foreign currency exchange differences	<b>(53)</b>	<b>(1)</b>	<b>(5)</b>	<b>–</b>	<b>(59)</b>
<b>At end of reporting period</b>	<b>1,576</b>	<b>66</b>	<b>329</b>	<b>6</b>	<b>1,977</b>
At 31 December 2018					
Cost	13,926	1,217	2,113	44	17,300
Accumulated depreciation	(6,281)	(955)	(1,284)	(38)	(8,558)
<b>Net carrying amount</b>	<b>7,645</b>	<b>262</b>	<b>829</b>	<b>6</b>	<b>8,742</b>
<b>At 31 December 2019</b>					
Cost	<b>7,287</b>	<b>1,136</b>	<b>1,661</b>	<b>44</b>	<b>10,128</b>
Accumulated depreciation	<b>(5,711)</b>	<b>(1,070)</b>	<b>(1,332)</b>	<b>(38)</b>	<b>(8,151)</b>
<b>Net carrying amount</b>	<b>1,576</b>	<b>66</b>	<b>329</b>	<b>6</b>	<b>1,977</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 14. RIGHT-OF-USE ASSETS

	Leasehold building HK\$'000
<b>Cost</b>	
At 1 January 2019	10,406
Additions	8,534
Written off	(6,301)
Transfer to assets held for sale	(4,684)
Exchange alignment	21
At 31 December 2019	7,976
<b>Accumulated depreciation</b>	
At 1 January 2019	–
Charge for the year	(4,541)
Eliminated on written off	550
Transfer to assets held for sale	1,222
Exchange alignment	(27)
At 31 December 2019	(2,796)
<b>Carrying amount</b>	
At 31 December 2019	5,180
At 1 January 2019	10,406

During the year, there was written off of right-of-use assets due to the termination of tenancy agreements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 15. INTANGIBLE ASSETS

	Usage right of movie database HK\$'000 (Note i)	Image rights in eSports field HK\$'000 (Note ii)	Exclusive operation rights of theme park HK\$'000 (Note iii)	Agency license HK\$'000 (Note iv)	Trade mark HK\$'000 (Note v)	Music license HK\$'000 (Note vi)	Usage right of electric game HK\$'000 (Note vii)	Broadway musical license HK\$'000 (Note viii)	Streaming platform HK\$'000 (Note ix)	Software license right HK\$'000	Total HK\$'000
<b>Reconciliation of carrying amount</b>											
– 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)
<b>At end of reporting period</b>	<b>30,905</b>	<b>299</b>	<b>169,355</b>	<b>33,139</b>	<b>12,343</b>	<b>7,314</b>	<b>34,714</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>288,069</b>
<b>Reconciliation of carrying amount</b>											
– 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	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)
<b>At end of reporting period</b>	<b>26,490</b>	<b>195</b>	<b>90,045</b>	<b>29,110</b>	<b>9,192</b>	<b>5,174</b>	<b>30,664</b>	<b>45,037</b>	<b>23,400</b>	<b>7,200</b>	<b>266,507</b>
<b>At 31 December 2018</b>											
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)
<b>Net carrying amount</b>	<b>30,905</b>	<b>299</b>	<b>169,355</b>	<b>33,139</b>	<b>12,343</b>	<b>7,314</b>	<b>34,714</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>288,069</b>
<b>At 31 December 2019</b>											
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)
<b>Net carrying amount</b>	<b>26,490</b>	<b>195</b>	<b>90,045</b>	<b>29,110</b>	<b>9,192</b>	<b>5,174</b>	<b>30,664</b>	<b>45,037</b>	<b>23,400</b>	<b>7,200</b>	<b>266,507</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 15. INTANGIBLE ASSETS (Continued)

Notes:

- (i) On 1 January 2016, the Company entered into a license agreement (“License Agreement”) with an independent third party (“Vendor”), which is a professional movie license company and owned the license right of numerous movies. Pursuant to the License Agreement, the Vendor granted the Company license right of the movie database in the PRC region for 10 years, from 1 January 2016 to 31 December 2025 (“Contract Period”) at a consideration of HK\$44,150,000. Within the Contract Period, the Company has right to sub-license the usage right to other parties. The usage right of movie database was measured initially at cost and amortised over 10 years using the straight-line method. At the end of the reporting period, the remaining amortisation period is 6 years.
- (ii) During the year ended 31 December 2016, the Group acquired image rights to use the names and endorsement of celebrities in eSports field in an aggregate consideration of HK\$23,197,000. The image rights were initially measured at cost and amortised over 3 to 6 years using the straight-line method.
- (iii) On 14 January 2016, the Group acquired Dream World Holdings Limited (“Dream World”) and its subsidiaries (the “Dream World Group”). Dream World Group has cooperation agreements with an independent third party for the exclusive operation rights of a film-based cultural park for 40 years from 2012. The theme park will be launched in 2021. At the date of completion of Dream World Group, the Group recognised exclusive operation rights of HK\$169,355,000. The exclusive operation rights of theme park would not be amortised until the launch of theme park.
- (iv) On 11 April 2017, the Group acquired Vector Vision Enterprises Limited (“Vector Vision”) and its subsidiaries (the “Vector Vision Group”). Vector Vision Group entered into agency agreements with an independent third party for the exclusive agency of the celebrity and artists training course. The agency license were initially measured at cost HK\$40,294,000 and amortised over 10 years using the straight-line method.
- (v) On 4 December 2017, the Group acquired The Players Limited (“The Players”). The Players entered in the operation of an E-sports institute which provides E-sports education and training classes in Hong Kong. During the acquisition, a trademark occurred with initially measured at HK\$15,757,000 and amortised over 5 years using the straight-line method.
- (vi) During the year ended 31 December 2017 the Group acquired music license for the global music right in consideration of HK\$13,261,000. The music license were initially measured at cost and amortised over 5 years using the straight-line method.
- (vii) During the year ended 31 December 2018, the Group acquired the usage right of an electric game in an aggregate consideration of HK\$35,000,000. The usage right was initially measured at cost and amortised over 10 years using the straight-line method.
- (viii) During the year ended 31 December 2019, the Group acquired a Broadway musical license in consideration HK\$50,000,000. The Broadway Musical license were initially measured at cost and amortised over 9.5 years using the straight-line method.
- (ix) During the year ended 31 December 2019, the Group acquired a streaming platform with consideration HK\$23,400,000. The streaming platform would not be amortised until the launch of it.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 16. 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
<b>Reconciliation of carrying amount</b>		
At beginning of reporting period	641,087	659,632
Impairment	(495,935)	(18,545)
<b>At end of reporting period</b>	<b>145,152</b>	641,087
<b>At 31 December</b>		
Cost	690,632	690,632
Accumulated impairment losses	(545,480)	(49,545)
	<b>145,152</b>	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.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 16. GOODWILL (Continued)

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
	<b>145,152</b>	<b>641,087</b>

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 16. GOODWILL (Continued)

Key assumptions used for value-in-use calculations are as follows:

	Entertainment									
	Music content		Film and TV series production and distribution		Television-related content		Event production and online broadcasting		Celebrity and artist training course agency business	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross profit margin	N/A	34%	13%	43%	15%	53%	42%	76%	83%	83%
Average growth rate	N/A	3%	2%	0%	3%	3%	3%	3%	12%	30%
Long-term growth rate	N/A	3%	3%	3%	3%	3%	3%	3%	3%	3%
Discount rate	N/A	30%	31%	31%	22%	23%	19%	21%	24%	24%

  

	Sports				Theme park	
	Sports events content		Marketing and promotional services		Theme park operation services	
	2019	2018	2019	2018	2019	2018
Gross profit margin	45%	71%	27%	46%	60%	65%
Average growth rate	3%	3%	3%	0%	12%	11%
Long-term growth rate	3%	3%	3%	3%	2%	2%
Discount rate	45%	35%	19%	19%	21%	23%

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Apart from the considerations described above in determining the value-in-use of the CGUs, the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 17. INTEREST IN AN ASSOCIATE

	2019 HK\$'000	2018 HK\$'000
<b>Unlisted shares</b>		
Share of net assets	591	1,495

Particulars of the associate is as follows:

Name	Place of incorporation/ type of legal entity	Place of operation	Percentage equity attributable to the Group		Principal activity
			Directly	Indirectly	
Guangzhou Yuedong Investment Management Co., Ltd.* ("Yuedong") 廣州市躍動投資管理有限公司	The PRC/limited liability company	The PRC	–	20%	Project investment, investment management and financial consultancy

\* English translation of company name is for identification purpose only.

Summarised financial information of the Group's material associates is set out below. The amounts presented below are after adjustments made to equity-account the associates.

	Yuedong	
	2019 HK\$'000	2018 HK\$'000
Current assets	3,001	7,414
Non-current assets	166	80
Current liabilities	(208)	(18)
	2019 HK\$'000	2018 HK\$'000
Revenue	–	–
Loss for the year	(4,453)	(3,845)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 18. INTEREST IN JOINT VENTURES

	2019 HK\$'000	2018 HK\$'000
<b>Unlisted shares</b>		
Share of net assets (Note)	–	5,627

Note:

On 5 December 2019, a subsidiary of the Group entered into an agreement with an independent third party to dispose of 50% equity interest of Beijing WenZiShuma Investment Management Company Limited for a cash consideration of HK\$4,922,000. The Group have received all the consideration and the amount was transferred to non-current asset classified as held for sale. The disposal was completed on 1 April 2020.

Particulars of the joint ventures are as follows:

Name of joint venture	Place of incorporation/type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/registered capital	Percentage equity attributable to the Group		Principal activities
				Directly	Indirectly	
Shinning Day Limited <sup>(i)</sup>	British Virgin Islands/limited liability company	Hong Kong	4 shares of US\$1 each	50%	–	Investment holding
Golden Sino Limited <sup>(i)</sup>	Hong Kong/limited liability company	Hong Kong	1,000 shares with capital of HK\$1,000	–	50%	Investment holding
Beijing YiLaiShen Technology Company Limited* 北京易來申科技有限公司 <sup>(i)</sup>	The PRC/foreign wholly-owned enterprise	The PRC	Paid-up capital of HK\$12,000,000	–	50%	Distribution of copyright-protected items and other entertainment related business
Beijing WenZiShuma Investment Management Company Limited* ("BWIM") 北京文資數碼投資管理有限公司	The PRC/limited liability company	The PRC	Paid-up capital of RMB6,000,000	50%	–	Project investment, investment management and financial consultancy service

\* English translation of company name is for identification purpose only.

<sup>(i)</sup> Companies collectively referred to as the Shinning Day Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 18. INTEREST IN JOINT VENTURES *(Continued)*

### **Fair value of investments**

All of the above joint ventures are not listed and there is no quoted market price available for the investments.

### **Relationship with joint ventures**

Shinning Day Group was established by the Group and the other joint venturer, which is a music provider in the PRC, to engage in distribution of copyright-protected items and other entertainment related business in the PRC. The investment is a strategic move of the Group to leverage the expertise of the other joint venturer in the field of the entertainment related business.

BWIM was established by the Group and the other joint venturer, which is a project investment company in the PRC, to engage in project investment, investment management and financial consultancy service in the PRC. The investment is a strategic move of the Group to leverage the expertise of the other joint venturer in the field of the project investment related business.

### **Financial information of joint ventures**

Summarised financial information of joint ventures is set out below, which represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 18. INTEREST IN JOINT VENTURES (Continued)

At 31 December 2019	Shinning Day Group HK\$'000	BWIM HK\$'000
<b>Gross amount</b>		
Non-current assets	30	10,164
Current assets	543	11,985
Current liabilities	(30,196)	(11,009)
Equity	(29,623)	11,140
Group's ownership interests	50%	50%
Group's share of equity	–*	5,570
Included in above:		
Cash and cash equivalents	16	5,799
Current financial liabilities*	(29,253)	8,949
<b>Year ended 31 December 2019</b>		
<b>Gross amount</b>		
Revenue	–	7,130
Loss for the year	(1,505)	(2)
Other comprehensive income/(loss) the year	140	(113)
Total comprehensive income for the year	(1,365)	(115)
Group's ownership interest	50%	50%
Group's share of results of joint ventures	–*	(1)
Group's share of other comprehensive income for the year	–*	(57)
Included in above:		
Depreciation and amortisation	–	(69)
Interest income	–	14
Interest expenses	(946)	–

\* The Group's share of net liabilities is limited to zero.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 18. INTEREST IN JOINT VENTURES (Continued)

At 31 December 2018	Shinning Day Group HK\$'000	BWIM HK\$'000
Gross amount		
Non-current assets	31	12,656
Current assets	573	10,111
Current liabilities	(28,862)	(11,513)
Equity	(28,258)	11,254
Group's ownership interests	50%	50%
Group's share of equity	—*	5,627
Included in above:		
Cash and cash equivalents	54	4,369
Current financial liabilities*	(28,862)	(11,513)
Year ended 31 December 2018		
Gross amount		
Revenue	—	5,026
(Loss) Profit for the year	(1,536)	999
Other comprehensive loss income the year	6,807	(341)
(Loss) Profit for the year and total comprehensive income for the year	5,271	658
Group's ownership interest	50%	50%
Group's share of results of joint ventures	—*	499
Group's share of other comprehensive income for the year	—*	(170)
Included in above:		
Depreciation and amortisation	—	(82)
Interest income	—	15
Interest expenses	(944)	—

\* The Group's share of net liabilities is limited to zero.

The unrecognised share of losses of Shinning Day Group for the current year amounted to HK\$752,000 (2018: loss of HK\$768,000) and the unrecognised share of losses cumulatively up to the end of the reporting period amounted to HK\$5,084,000 (2018: HK\$4,332,000) respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK\$'000	2018 HK\$'000
Financial assets at fair value through other comprehensive income ("financial assets at FVOCI")	62,148	60,506
Deposits for acquisition of unlisted investments (i)	–	2,340

	Fair value hierarchy	Valuation methodology and inputs	Significant inputs	Sensitivity analysis
Financial assets at fair value through other comprehensive income	Level 3	Discounted cash flow	Estimated future cash flow with discount rate of 21% per annum	Assuming other factors remain unchanged, the higher the discount rate, the lower the fair value

Note:

- (i) On 21 September 2018, the Company entered into a Series A Preferred Share purchase agreement with Soocii Co., Limited. The Company agreed to subscribe 469,444 preferred shares of Soocii Co., Limited at the consideration of US\$1,000,000. On 29 November 2018, deposit of US\$300,000 had been paid pursuant to the agreement. The subscription has terminated during the year.

## 20. DERIVATIVE FINANCIAL ASSETS

	2019 HK\$'000	2018 HK\$'000
Contingent consideration – Vector Vision (Note a)	–	4,485
Contingent consideration – Dream World (Note b)	–	2,658
Less: current-portion	–	7,143
	–	(7,143)
Non-current portion	–	–





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 20. DERIVATIVE FINANCIAL ASSETS (Continued) Contingent consideration for business combination

	2019 HK\$'000	2018 HK\$'000
As at 1 January	7,143	12,129
Fair value changes recognised in profit or loss	26,335	(4,986)
Derecognition of contingent consideration	(33,478)	–
	–	7,143

Contingent consideration for business combination – Derivative financial assets are initially and subsequently measured at fair value, with changes in fair values in subsequent accounting periods being recognised in profit or loss.

- (a) On 30 November 2016, the Group entered into a sale and purchase agreement (“Vector Vision Agreement”) with an independent third parties to acquire the entire equity interests of Vector Vision Group (the “Vector Vision Acquisition”). The acquisition was completed on 11 April 2017.

Included in the Vector Vision Agreement, there was a profit guarantee pursuant to which the Vendor guarantees to the Group that the net profit after tax of Vector Vision Group (i) for the year ended 31 December 2018 is not less than HK\$3,000,000 for the whole financial year; (ii) for the year ending 31 December 2019 is not less than HK\$6,000,000 for the whole financial year; and (iii) for the year ending 31 December 2020 is not less than HK\$9,000,000 for the whole financial year (“Guaranteed Profit”). If the event that Guaranteed Profit have not been met, compensation shall be paid by the Vendor to the Group. For the year ended 31 December 2018, the actual profit of Vector Vision Group has been met with the Guaranteed Profit for not less than HK\$6,000,000 (2017: HK\$3,000,000). This fair value as at 31 December 2018 and 31 December 2019 amounting to HK\$4,485,000 and HK\$Nil respectively and fair value loss of HK\$4,485,000 being recognised for the year ended 31 December 2019.

- (b) On 6 July 2015, the Group entered into a sale and purchase agreement with three independent third parties (the “Vendors”) pursuant to which the Company/the Vendors agreed to acquire/sell the entire equity interests of Dream World Group (the “Dream World Acquisition”). The acquisition was completed on 14 January 2016.

Include in the Dream World Agreement, there is a profit guarantee pursuant to which the Vendor guarantees to the Group that the net profit after tax of Dream World Group for the 3 financial years end 2015, 2016 and 2017 is not less than certain amounts. For detail of the profit guarantee and the related fair value hierarchy disclosure have been set out in note 36 to the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 21. LOANS TO AND DUE FROM JOINT VENTURES

	Note	2019 HK\$'000	2018 HK\$'000
Due from joint ventures	(i)	2,181	996
Loans to a joint venture	(ii)	17,000	17,000
		19,181	17,996
Loss allowance	(iii)	(19,181)	(17,996)
		-	-

Notes:

(i) The amounts due from joint ventures are unsecured, interest-free and have no fixed repayment term. The directors expect that the amounts will not be realised in the next twelve months of the end of the reporting period.

(ii) On 1 January 2011, the Group granted a revolving loan facility of HK\$17,000,000 to a joint venture, which is unsecured, interest-bearing at prime rate plus 1.5% per annum and repayable within 36 months from the date of agreement.

On 27 December 2013, the Group signed a supplemental agreement with the joint venture and agreed to extend the term of the loan facility from 28 December 2013 to 28 December 2016.

On 27 December 2016, the Group further signed a supplemental agreement with the joint venture and agreed to extend the term of the loan facility from 28 December 2016 to 27 December 2019. The joint venture had drawn down HK\$17,000,000 (2018: HK\$17,000,000) as at 31 December 2019.

(iii) Allowance for doubtful debts was made in respect of the loans to and amounts due from joint ventures because these joint ventures have suffered substantial accumulated losses and the directors are of the opinion that the probability of recovering the loans to and amounts due from these joint ventures in full would be remote. During the year, allowance for doubtful debts was made because of no improvement in the financial position of the joint ventures to the Group.

Movement in loss allowance is as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of reporting period	17,996	15,229
Increase in allowance	1,185	2,767
At end of reporting period	19,181	17,996

The carrying value of the loans and amounts due approximates their fair value.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 22. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Food and beverages	22	90
Movie scripts	17,000	121,400
	17,022	121,490

## 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK\$'000	2018 HK\$'000
Held for trading-listed equity securities, listed in Taiwan	1,091	2,698
Unlisted convertible notes at fair value	–	16,805
	1,091	19,503

Movement of unlisted convertible notes at fair value as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Unlisted convertible notes at fair value, designated upon initial recognition</b>		
At beginning of the year	16,805	–
Additions	–	15,700
Fair value adjustments	(1,105)	1,105
Derecognised during the year	(15,700)	–
At end of the year	–	16,805

Notes:

- (a) During the year ended 31 December 2018, the Group subscribed convertible note in the principal amount of HK\$15,700,000 of CSC Group Company.

In the opinion of the directors of the Company, the unlisted convertible note was designated as at fair value upon initial recognition as they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. The convertible note matured on 26 March 2019 and none of the convertible note has been converted. The Group has derecognised the convertible note on the maturity date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 24. INVESTMENT IN TV-SHOW

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. The TV shows completed and launched in the first quarter of 2020. So all the amount transfer from prepayment-contract costs for production of TV series. At as 31 December 2019, impairment loss of HK\$9,702,000 was recognised.

## 25. ACCOUNTS AND OTHER RECEIVABLES

	Note	2019 HK\$'000	2018 HK\$'000
<b>Accounts receivable</b>			
From third parties		96,291	90,161
Loss allowance	(i)	(23,769)	(6,345)
	(i)	72,522	83,816
<b>Prepayments and other receivables – current</b>			
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
<b>Prepayments – non-current</b>			
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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 25. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

### (i) Accounts receivable (Continued)

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	2018 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	–
	<b>72,522</b>	83,816

Movement in allowance for doubtful debts is as follows:

	2019 HK\$'000	2018 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	<b>23,769</b>	6,345

### (ii) Other receivables

Movement in allowance for doubtful debts is as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of the year	–	–
Increase in allowance	18,455	–
At end of the year	<b>18,455</b>	–

### (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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 25. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

### (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.

## 26. BANK BALANCES AND CASH

	2019 HK\$'000	2018 HK\$'000
Bank balances and cash are denominated in		
HK\$	26,289	64,380
RMB	5,351	6,749
NT\$	235	953
USD	693	6,686
KRW	–	8
Bank balances and cash	32,568	78,776

Cash at bank earns interest at floating rates based on daily bank deposit rates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

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

	2019 HK\$'000	2018 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

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

(Continued)

(ii) Disposal group classified as held for sale (Continued)

### 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
<b>Total assets of disposal group classified as held for sale</b>	<b>7,271</b>
Accounts and other payables	1,067
<b>Total liabilities of disposal group classified as held for sale</b>	<b>1,067</b>

The disposal was completed on 3 April 2019.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 28. ACCOUNTS AND OTHER PAYABLES

	Note	2019 HK\$'000	2018 HK\$'000
<b>Accounts payable</b>			
To third parties	(i)	6,873	13,952
<b>Other payables</b>			
Accrued charges and other payables		40,012	21,085
Deposit received	(ii)	4,922	14,000
Contract liabilities	(iii)	875	4,630
Due to directors	(iv)	68	699
Due to directors of subsidiaries of the Company	(v)	183	95
		46,060	40,509
		52,933	54,461

Notes:

(i) **Accounts payable**

At the end of the reporting period, the ageing of accounts payable by invoice date is in the range of zero to 30 days.

(ii) **Deposit received**

On 24 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. The Group have received part of the consideration HK\$14,000,000 as deposit. The disposal was completed on 3 April 2019.

On 5 December 2019, a subsidiary of the Group entered into an agreement with an independent third party to disposal of 50% equity interest in a joint venture, namely Beijing WenZiShuma Investment Management Company Limited, for a cash consideration of HK\$4,922,000 (equivalent to RMB4,400,000). The Group have received all of the consideration. However, the disposal is not completed as at the report date.

(iii) **Movements in contract liabilities**

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	4,630	–
Increase in contract liabilities as a result of received deposits	–	7,255
Decrease in contract liabilities as a result of recognising revenue during the year	(3,755)	(2,625)
At the end of the year	875	4,630

(iv) **Due to directors**

The amounts due to the Company's directors, Mr. Hsu Tung Chi and Mr. Lai Kwok Fai, Franki (resigned on 13 March 2020), are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due to directors approximates their fair value.

(v) **Due to directors of subsidiaries of the Company**

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due approximates their fair value.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 29. INTEREST-BEARING BORROWINGS

	Note	2019 HK\$'000	2018 HK\$'000
Unsecured bank loans	(a)	–	4,538

The maturity of the bank loans based on repayment schedule (ignoring the effect of any repayment on demand clause) are as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	–	4,538

Movement of interest-bearing borrowings is as follows:

	2019 HK\$'000	2018 HK\$'000
As at 1 January	4,538	19,911
Proceed from new interest-bearing borrowings	–	22,955
Repayments	(4,538)	(38,328)
As at 31 December	–	4,538

Note:

- (a) At the end of the reporting period, bank loans with a clause in their terms that gives the banks an overriding rights to demand for repayment without notice or with notice period of less than 12 months at its sole discretion are classified as current liabilities even though the directors do not expect that the banks would exercise their right to demand repayment. The bank loans are denominated in Hong Kong Dollars.

The ranges of interest rates on the Group's interest-bearing borrowings are as follows:

	2019	2018
Interest rates		
Hong Kong Interbank Offer Rate	–	Minus 1-1.5% p.a.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 30. LEASE LIABILITIES

	HK\$'000
At the beginning of the year	–
Upon adoption of HKFRS 16	<b>10,406</b>
Additions	<b>8,534</b>
Payments during the year	<b>(4,633)</b>
Imputed interest	<b>259</b>
Written off	<b>(5,831)</b>
Transfer to liabilities associated with the disposal group held for sale	<b>(3,486)</b>
Exchange realignment	<b>51</b>
At the end of the year	<b>5,300</b>

Lease liabilities payable:

	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Minimum lease payment due:		
– Within one year	3,263	3,150
– More than one year but not more than two years	1,858	1,831
– More than two years but not more than five years	321	319
	5,442	5,300
Future finance charges	(142)	
Present value of lease liabilities	5,300	
Amounts due for settlement within one year (shown under current liabilities)		(3,150)
Amounts due for settlement after one year		2,150



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 31. CONVERTIBLE BONDS

The liabilities component of convertible bonds ("CB") at 31 December is as follows:

	2019 HK\$'000	2018 HK\$'000
CB1	–	11,037
CB2	<b>401,834</b>	386,402
	<b>401,834</b>	397,439

### Convertible Bond issued in 2017

On 19 June 2017, the Company issued CB with the aggregate principal amount of HK\$412,500,000 issued in denomination and integral amount of HK\$412,500,000 in nominal amount for the aggregate cash consideration of HK\$412,500,000 ("CB2"). The holders of the CB2 will be able to convert the outstanding principal amount of each of CB2 in whole or in part (in multiples of HK\$1,000,000) into ordinary shares of the Company at a conversion price of HK\$0.55 per conversion share (subject to customary anti-dilutive adjustments) at any time following the date of issue until the maturity date (18 June 2022). CB2 bear interest at 5.5 per cent per annum, payable annually. Also, the Company has an option to early redeem CB2 at an amount equal to 105% of the principal amount any time since the issue date but before the maturity date. None of CB2 have been converted into ordinary shares of the Company up to the date when the consolidated financial statements are authorised for issue.

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 8.7% which is based on market interest rates for a number of comparable convertible bonds denominated in HK\$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the fair value of CB2 and the fair value of the liability component of CB2 and is included in convertible bonds reserves in equity. Subsequently, the liability component is carried at amortised cost.

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	<b>386,402</b>	371,645
Interest expense (base on effective interest)	<b>32,463</b>	31,726
Interest paid	<b>(17,031)</b>	(16,969)
At the end of the year	<b>401,834</b>	386,402

### Convertible Bond issued in 2016

As mentioned in note 36 to the consolidated financial statements, the 1st tranche of CB with the principal amount of HK\$120 million was recognised by the Group on 31 March 2016 ("CB1").



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 31. CONVERTIBLE BONDS (Continued)

### Convertible Bond issued in 2016 (Continued)

The holders of CB1 will be able to convert the outstanding principal amount in whole or in part (in multiples of HK\$1,000,000) into ordinary shares of the Company at a conversion price of HK\$0.48 per conversion share (subject to be customary anti-dilutive adjustments) until the maturity date (i.e. 3 July 2021). The Company has an option to early redeem CB1 at an amount equal to 100% of the principal amount any time since the issue date but before the maturity date. CB1 is not interest bearing.

CB1 is determined to be a compound financial instrument with a conversion option, that will or may be settled by an exchange of a fixed number of ordinary shares of the Company for a fixed amount of cash, being treated as equity. The liability components include host debt component (being the Company's obligation to pay the principal amount of CB1 on maturity date if CB1 is not converted or redeemed) and a non-closely related early redemption option which is remeasured to its fair value at the end of the reporting period which fair value changes being recognised in profit or loss.

On initial recognition of CB1, the equity component is assigned the residual amount after deducting from the fair value of CB1 as a whole the amount separately determined for the liability component. The value of the early redemption option embedded in CB1 other than the equity component (i.e. the conversion option) is included in the liability component. Accordingly, on initial recognition, the Group first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including the embedded early redemption option which is considered insignificant) that does not have an associated conversion option feature. The carrying amount of the equity conversion option is then determined by deducting the fair value of the financial liability from the fair value of CB1 as a whole. The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 12% which is based on market interest rates for a number of comparable convertible bonds denominated in HK\$ and certain parameters specific to the Group's liquidity risk. At subsequent reporting dates, the liability component is carried at amortised cost with an effective interest rate of 12%.

During the year ended 31 December 2016, the majority of CB1 with the aggregate principal amount of HK\$105,360,000 were converted into 219,500,000 ordinary shares of the Company.

At 31 December 2019, as the Project has not completed, all the CB1 was derecognised. For details, please refer to note 36.

Movements of the carrying amount of the liability component of the CB1 (with the fair value of the early redemption option being insignificant) are as follows:

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	11,037	9,855
Interest expense (base on effective interest)	1,323	1,182
Derecognition during the year	(12,360)	–
At the end of the year	–	11,037



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 32. SHARE CAPITAL

	Note	Number of ordinary shares '000	Nominal value HK\$'000
<b>Authorised:</b>			
<b>At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019, ordinary shares of HK\$0.04 each</b>			
		5,000,000	200,000
<b>Issued and fully paid:</b>			
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
<b>At 31 December 2019, ordinary shares of HK\$0.04 each</b>		<b>2,020,176</b>	<b>80,807</b>

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		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
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
	<b>1,150,000</b>			<b>156</b>

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 33. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Old Share Option Scheme"). The Old Share Option Scheme was valid and effective for a period of ten years and expired on 23 January 2013. On 27 March 2013, with approval by the shareholders, the Company adopted a new share option scheme (the "New Share Option Scheme"), with similar terms except for the extension of eligible participants to include consultants and suppliers as well as the reduction of the offer of acceptance from 28 days to 7 days to replace the Old Share Option Scheme.

The purpose of the New Share Option Scheme is to provide eligible employees with 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. The Board may, at its discretion, invite any full-time employees of the Company, consultants and suppliers of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10% of the issued shares of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the New Share Option Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Options might be granted at a consideration of HK\$1. Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 30 November 2015, every four issued and unissued ordinary shares of HK\$0.01 each was consolidated into one consolidated share of HK\$0.04 each. As a result of the share consolidation on 1 December 2015, the exercise price of the share options had been adjusted to HK\$0.4572 per share since then. The options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 33. SHARE OPTION SCHEME (Continued)

Details of specific categories of share options granted under the New Share Option Scheme are as follows:

Date of grant	Exercise period	Exercise price	Fair value
			at grant date/ service date
		HK\$	HK\$
16/11/2018			
– Lot 1	16/11/2018 to 16/11/2021	0.2300	0.0651-0.0802
– Lot 2	16/11/2019 to 16/11/2021	0.2300	0.0744-0.0826
– Lot 3	16/11/2020 to 16/11/2021	0.2300	0.0840-0.0866

In accordance with the terms of the New Share Option Scheme, options granted during the financial year ended 31 December 2018 are exercisable during the validity period of 3 years from the date of grant and subject to a vesting scale in tranches of one-third on the date of grant and each anniversary date thereof up to and including the second anniversary date.

### (a) Fair value of share options and assumptions

The fair value of the share options is determined using a Binomial Option Pricing Model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expectations of early exercise are incorporated into the model. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

	Date of grant 16/11/2018
Share price at grant date	0.2180
Exercise price	0.2300
Option life	3 years
Expected volatility	60.85%
Expected dividends	Nil
Risk-free interest rate	2.045%

The expected volatility is based on the historic volatility (based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

During the year, the total expense of HK\$4,654,000 (2018: HK\$3,932,000) in relation to share options granted by the Company has been recognised in profit or loss.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 33. SHARE OPTION SCHEME (Continued)

### (b) Movement in share option

The following table discloses movements of the Company's number of share options during the years ended 31 December 2019 and 2018:

Grant date	Exercise period	Exercise price HK\$	Outstanding at 1 January	Lapsed during the year	Outstanding at 31 December
<b>Year ended 31 December 2019</b>					
<b>Directors</b>					
16/11/2018	16/11/2018 to 16/11/2021	0.23	32,000,000	(16,000,000)	16,000,000
<b>Employees</b>					
16/11/2018	16/11/2018 to 16/11/2021	0.23	108,000,000	(10,000,000)	98,000,000
			<b>140,000,000</b>	<b>(26,000,000)</b>	<b>114,000,000</b>
Exercisable at end of reporting period					<b>76,000,006</b>
Weighted average exercise price					<b>0.23</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 33. SHARE OPTION SCHEME (Continued)

### (b) Movement in share option (Continued)

Grant date	Exercise period	Exercise price HK\$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
<b>Year ended 31 December 2018</b>					
<b>Directors</b>					
16/11/2018	16/11/2018 to 16/11/2021	0.23	–	32,000,000	32,000,000
<b>Employees</b>					
16/11/2018	16/11/2018 to 16/11/2021	0.23	–	108,000,000	108,000,000
			–	140,000,000	140,000,000
Exercisable at end of reporting period					46,666,667
Weighted average exercise price					0.23

## 34. RETIREMENT BENEFITS SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Schemes"). The assets of the MPF Schemes are held separately in provident funds managed by independent trustees. Under the MPF Schemes, the Group and each of the employees make monthly contributions to the schemes at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK\$30,000 since June 2014.

The Group's subsidiaries in the PRC also participate in defined contribution retirement schemes covering their full-time PRC employees. The schemes are administered by the relevant government authorities which undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiaries.

The Group is also required to participate in defined contribution retirement benefit schemes administered and operated by Bureau of Labour Insurance of Taiwan for employees employed in Taiwan. Under the scheme, the employers are required to make contributions to the scheme at 6% of the employees' relevant income. Contributions to the schemes vest immediately.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK\$2,453,000 (2018: HK\$2,785,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 35. DEFERRED TAXATION

The movements in the Group's net deferred tax liabilities were as follows:

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	52,660	54,014
Less: Deferred tax credit resulting from amortisation and impairment of intangible assets	(21,355)	(1,354)
At the end of the year	31,305	52,660

The retained earnings of certain PRC subsidiaries would be subject to additional taxation if they are distributed. The estimated withholding tax effects on the distribution of retained earnings of these PRC entities were approximately HK\$85,173,000 (2018: HK\$93,055,000). In the opinion of the directors, these retained earnings, at the present time, are required for financing the continuing operations of the entities and no distribution would be made in the foreseeable future. Accordingly, no provision for deferred taxation in respect of withholding tax on dividend have been made.

	2019 HK\$'000	2018 HK\$'000
<b>Unrecognised deferred tax assets arising from</b>		
Deductible temporary differences	5	794
Tax losses	26,792	4,348
At the end of the year	26,797	5,142

Neither the tax losses nor the deductible temporary differences expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 36. CONTINGENT CONSIDERATION – CONVERTIBLE BONDS

On 6 July 2015, the Company entered into a sale and purchase agreement with three independent third parties (the “Vendors”) pursuant to which the Company/the Vendors agreed to acquire/sell the entire equity interests of Dream World Group (the “Dream World Acquisition”). Dream World would be principally engaged in the business of operating film-based cultural parks and tourism focused projects after the completion of construction of the parks. Details of the Dream World Acquisition were set out in the Company’s circular dated 28 October 2015. Subsequent to the abovementioned sale and purchase agreement was entered into, a number of supplementary agreements were entered into (collectively referred to as “Dream World Agreements”).

Pursuant to the Dream World Agreements, the consideration for the Dream World Acquisition included the following:

### Initial consideration

- Cash consideration of HK\$50,000,000 paid in December 2015;
- Cash consideration of HK\$100,000,000 paid in January 2016;
- Allotment and issue of 643,750,000 ordinary shares of the Company (“Consideration Shares”) (allotted and issued in January 2016).

### Contingent consideration

A sum of maximum of HK\$360,000,000 to be paid by issuance of convertible bonds by the Company (“CB”), subject to the fulfilment of Profit Guarantee requirements (see below) and the Group being satisfied with the progress of the stage of construction of the Project (being a film-based cultural park as referred to in the Cooperation Agreements (see below) executed between Dream World Group and Wang Shang Shi Jie (Beijing) Digital Movie Culture Development Limited 網尚世界(北京)數字電影文化發展有限公司 as well as its subsidiaries (the “Wang Shang Shi Jie Group”).

The Profit Guarantee is set out below:

- For the year ending 31 December 2015, the net profit after tax of Dream World Group (based on the audited accounts) is not less than HK\$15 million;
- For the year ending 31 December 2016, the net profit after tax of Dream World Group (based on the audited accounts) is not less than HK\$20 million; and
- For the year ending 31 December 2017, the net profit after tax of Dream World Group (based on the audited accounts) is not less than HK\$25 million.

Financial year	Maximum amount of the CB to be issued in the corresponding financial year
Year ending 31 December 2015	HK\$120 million
Year ending 31 December 2016	HK\$120 million
Year ending 31 December 2017	HK\$120 million



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 36. CONTINGENT CONSIDERATION – CONVERTIBLE BONDS *(Continued)*

### **Contingent consideration** *(Continued)*

The CB consideration shall be paid in 3 different payments within 3 months upon the Company (i) being satisfied with the progress of the stage of construction of the Project for the corresponding financial years of 2015, 2016 and 2017 respectively as set out in the relevant independent construction progress reports prepared by Dream World Group, which shall be received by the Company on or before 31 March 2016, 31 March 2017 and 31 March 2018 respectively or such other dates as agreed by the parties in writing and (ii) having received the relevant audited accounts of Dream World Group fulfilling the Profit Guarantee on or before 31 March 2016, 31 March 2017 and 31 March 2018 or such other dates agreed by the parties in writing. If the Company is not satisfied with the progress of the stage of construction of the Project in the relevant independent construction progress, the Company shall not be obliged to pay the CB consideration for that corresponding financial year regardless whether the Profit Guarantee for that year has been met.

In the event that the Project Completion as defined in the Dream World Agreements does not take place by 31 December 2019, the Group has the option (in its sole and absolute discretion) for the refund and return of the 643,750,000 Consideration Shares and any portion of the CB Consideration already paid to the Vendors or their nominees from the Vendors in full within 3 months upon receiving the relevant written notice from the Group. In the event that the said Consideration Shares and/or CB Consideration have been disposed of by the Vendors or their nominee(s), the Vendors shall refund and return all undisposed Consideration Shares and CB Consideration to the Company and, by way of cash compensation, pay the Group a sum equivalent to the shortfall, being the number of the Consideration Shares and/or CB Consideration disposed multiplied by their respective issue price of the Consideration Shares and applicable conversion price of the Convertible Bonds on the date the cash compensation is made respectively.

In the event that any CB consideration for any relevant year is not paid by the Company on grounds that the Company is not satisfied with the progress of the stage of construction of the Project for the relevant year, only the fulfillment of the conditions that the Project Completion defined in the Dream World Agreements has taken place by 31 December 2019 and the Profit Guarantee for the year of 2015, 2016 and 2017 have all been met or satisfied (either by way of Dream World Group's performance or by way of the Vendor's cash reimbursement to the Company), then, the Company shall, upon request from the Vendors in writing, pay to the Vendors the CB consideration that has not been paid.

In the event that the Company is not satisfied with the progress of the stage of construction of the Project for the relevant financial year, the Company may, at its discretion, withhold the CB consideration payable to the Vendors or their nominee(s) for that year. Only on the conditions that, in the next financial year(s), the Company is satisfied with the progress of the stage of construction of the Project for such financial year and the Profit Guarantee requirement for such financial year and the earlier financial year have been met or satisfied (either by way of Dream World Group's performance or by way of the Vendors' cash reimbursement to the Company), then, the Company shall pay the Vendors for such financial year and the previous financial year(s) within 3 months upon the Company receiving the audited account of Dream World Group on or before 31 March 2017 or 31 March 2018, as applicable.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 36. CONTINGENT CONSIDERATION – CONVERTIBLE BONDS *(Continued)*

### **Contingent consideration** *(Continued)*

In the event that the Company is satisfied with the progress of the stage of construction of the Project for the relevant years and Dream World Group records a shortfall between the Guaranteed Profit and the Actual Profit in each of the relevant financial years, the Vendors may, at their sole discretion, by cash reimburse the Company, within 3 months upon the Company receiving the audited account of Dream World Group on or before 31 March 2016, 31 March 2017 and 31 March 2018 respectively or such other dates agreed by the parties in writing, for the Actual Profit that Dream World Group would have earned had the Guaranteed Profit requirement as described above is fully met in the corresponding financial year and, in such case, the Vendors shall be entitled to obtain the relevant CB consideration for that year.

In the event that the Company is satisfied with the progress of the stage of construction of the Project for the relevant years and that Dream World Group records a loss in any of the 3 financial years ending 31 December 2015, 31 December 2016 and 31 December 2017, the Vendors shall, in proportion to their respective shareholdings in Dream World Group as at the date hereof, pay the Company and/or its nominee(s) a compensation in cash, within 3 months upon the Company receiving the audited accounts of Dream World Group on or before 31 March 2016, 31 March 2017 and 31 March 2018 respectively or such other dates agreed by parties in writing, equivalent to the loss incurred by Dream World Group for the corresponding year. The Vendors may also, at their sole discretion, by cash reimburse the Company the shortfall of the Guaranteed Profit for that corresponding year and, in such case, the Vendors shall be entitled to obtain the relevant CB consideration for that year.

The Dream World Acquisition was completed on 14 January 2016 and Dream World Group has become subsidiaries of the Group since then.

### **Consideration for the Dream World Acquisition**

Based on the terms and circumstances described above, the consideration for the Dream World Acquisition as at the date of acquisition included the followings:

- Cash consideration of HK\$150 million;
- CB with a maximum amount of HK\$360 million to be issued by the Company and hence being treated as contingent consideration payable and measured at fair value at the date of acquisition, amounting to HK\$262,595,000;
- 643,750,000 Consideration Shares being classified as equity and measured at fair value at the date of acquisition based on the quoted market price of ordinary shares of the Company at the date of acquisition, amounting to HK\$68,399,000; and
- Right to require the Vendors to return the 643,750,000 Consideration Shares and CB issued or to receive cash compensation in case any of the Consideration Shares and CB were disposed of by the Vendors (when the Project Completion does not take place by 31 December 2019). Given the nature, such a right is considered and referred to as “Contingent Consideration Receivable” and measured at fair value at the date of acquisition, amounting to HK\$552,000.

Transaction costs of HK\$60,880,000 were expensed in the profit or loss for the year ended 31 December 2016.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 36. CONTINGENT CONSIDERATION – CONVERTIBLE BONDS (Continued)

### Consideration for the Dream World Acquisition (Continued)

The Profit Guarantee in respect of the year ended 31 December 2015 was met (with the related audited accounts received on 31 March 2016 and the Company was satisfied with the progress of the construction of the Project in respect of the year ended 31 December 2015. Hence the 1st tranche of CB (with the aggregate principal amount of HK\$120,000,000) were issued to the Vendors during the year ended 31 December 2016. The initial recognition date of the 1st tranche of the CB was determined to be 31 March 2016, being the date when the conditions for the issuance of the 1st tranche of the CB were satisfied. Please see note 31 for details regarding the terms and accounting treatment of the CB.

The Profit Guarantee in respect of the years ended 31 December 2016 and 31 December 2017 respectively were also satisfied. The Group received an independent progress report regarding the construction progress of the Project dated 25 June 2016 which mentioned that the construction was not on schedule and would be delayed for one year and 4 months so that the revised completion time of the Project would be delayed to the end of 2018; the original scheduled completion time of the Project was June 2017. Up to the date when the Group's consolidated financial statements for the year ended 31 December 2017 were authorised for issue, the management of the Company has not confirmed that it was satisfied with the progress of the construction of the Project in respect of the years ended 31 December 2016 and 31 December 2017, as in the opinion of the management of the Company, since there is no definitive and quantitative benchmark to assess the satisfaction of the construction progress, the management of the Company decided to withhold the issuance of the 2nd tranche of CB (with principal amount of HK\$120 million) and the 3rd tranche of CB (with principal amount of HK\$120 million) until the Project Completion defined in the Dream World Agreements. For these reasons, the directors of the Company concluded not to issue the 2nd and 3rd tranches of the CB yet. Accordingly, as at 31 December 2018, the 2nd and 3rd tranches of CB are still treated as contingent consideration payables and remeasured to their fair values amounting to HK\$212,314,000 with a fair value loss of HK\$6,399,000 being recognised for the year ended 31 December 2018. However, the Project has not completed as at 31 December 2019, according to the Dream World Agreement, the Group has no obligation to issue the 2nd and 3rd tranches of CB. The fair value of the 2nd and 3rd tranches of CB was HK\$240,000,000 with a fair value loss of HK\$27,686,000 being recognised on 31 December 2019. The Group has derecognised the 2nd and 3rd tranches of CB on 31 December 2019.

The fair values of these contingent consideration payable as 31 December 2018 was categorised as Level 3 under the fair value measurement hierarchy and were determined by an independent qualified valuer engaged by the Company using Monte-Carlo simulation approach with the key assumptions and inputs described below:

Key inputs	Sensitivity analysis
12% discount rate	The higher the discount rate, the lower the contingent consideration and vice versa

Similarly, the abovementioned Contingent Consideration Receivable was remeasured to its fair value as at 31 December 2018 and 31 December 2019 amounting to HK\$2,658,000 and HK\$33,479,000 respectively with a fair value loss of HK\$295,000 being recognised for the year ended 31 December 2018 and a fair value gain of HK\$30,521,000 being recognised on 31 December 2019. The Group has derecognised the contingent consideration receivable on 31 December 2019.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 36. CONTINGENT CONSIDERATION – CONVERTIBLE BONDS (Continued)

### Consideration for the Dream World Acquisition (Continued)

The fair values of the Contingent Consideration Receivable as at 31 December 2018 was categorised as Level 3 under the fair value measurement hierarchy and were determined by an independent qualified valuer engaged by the Company using Monte-Carlo simulation approach with the key assumptions and inputs described below:

Key inputs	Sensitivity analysis
12% Discount rate	The higher the discount rate, the lower the consideration and vice versa

## 37. 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





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 38. COMMITMENTS

### Capital expenditure commitment

	2019 HK\$'000	2018 HK\$'000
Contracted but not provided for, net of deposit recognised in the consolidated financial statements:		
– Acquisition of unlisted investment	–	5,482
– Payment of film production	47,649	50,220
	47,649	55,702

### Commitments under operating leases

The Group leases equipment and premises under operating leases. The leases are negotiated for a term ranging from 1 year to over 5 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of equipment and premises falling due as follows:

	2018 HK\$'000
Within one year	7,288
In the second to fifth years inclusive	6,425
	13,713



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise share options, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and bank balances. The Group has various other financial instruments such as accounts and other receivables and accounts and other payables, which arise directly from its business activities.

The accounting policies for financial instruments have been applied to the items below:

	2019				2018			
	Financial assets at fair value through other comprehensive income HK\$'000	Financial assets at amortised cost HK\$'000	Assets at fair value through profit or loss HK\$'000	Total HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Financial assets at amortised cost HK\$'000	Assets at fair value through profit or loss HK\$'000	Total HK\$'000
<b>Financial assets as per consolidated statement of financial position</b>								
Financial assets at fair value through other comprehensive income	62,148	-	-	62,148	60,506	-	-	60,506
Investment in TV show	-	52,698	-	52,698	-	-	-	-
Financial assets at fair value through profit or loss	-	-	1,091	1,091	-	-	19,503	19,503
Derivative financial assets	-	-	-	-	-	-	7,143	7,143
Accounts and other receivables	-	84,664	-	84,664	-	94,491	-	94,491
Bank balances and cash	-	32,568	-	32,568	-	78,776	-	78,776
<b>Total</b>	<b>62,148</b>	<b>169,930</b>	<b>1,091</b>	<b>233,169</b>	<b>60,506</b>	<b>173,267</b>	<b>26,646</b>	<b>260,419</b>

	2019			2018		
	Financial liabilities at fair value HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000	Financial liabilities at fair value HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
<b>Financial liabilities as per consolidated statement of financial position</b>						
Accounts and other payables	-	47,136	47,136	-	35,831	35,831
Interest-bearing borrowings	-	-	-	-	4,538	4,538
Convertible bonds	-	401,834	401,834	-	397,439	397,439
Lease liabilities	-	5,300	5,300	-	-	-
Contingent consideration liabilities	-	-	-	212,314	-	212,314
<b>Total</b>	<b>-</b>	<b>454,270</b>	<b>454,270</b>	<b>212,314</b>	<b>437,808</b>	<b>650,122</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum.

### Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to accounts and other receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of accounts and other receivables is set out in note 25 to the consolidated financial statements. The Group only provides services to recognised and credit-worthy third parties. Management closely monitors all outstanding debts and reviews the collectability of debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the financial statements. The Group does not hold any collateral over these assets.

At the end of the reporting period, the Group had a concentration of credit risk as 26% (2018: 24%) and 76% (2018: 86%) of the total accounts receivable were made up by the Group's largest customer's and the five largest customers' outstanding balances respectively.

The Group's bank balances are placed with credit-worthy banks in Hong Kong, in the PRC and in Taiwan.

The Group applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all accounts receivable. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivables as at 31 December 2019 and 31 December 2018:

	2019			2018		
	Expected loss	gross carrying amount	Loss allowance	Expected loss	gross carrying amount	Loss allowance
	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000
Current (not past due)	10.71	7,386	791	3.12	58,733	1,833
Less than 1 month past due	19.49	1,787	348	0.42	7,200	30
1 month to 3 months past due	4.14	9,957	412	0.42	19,830	84
3 months to 12 months past due	0.77	39,028	300	0.18	–	–
More than 1 year past due	57.48	38,133	21,918	100.00	4,398	4,398
		96,291	23,769		90,161	6,345



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Expected loss rates are based on actual loss experience over the past 3 years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Key reasons for the significant changes in the gross carrying amounts of accounts receivable during the year ended 31 December 2019 are as follow:

- decrease in settlement by customers for less than 1 month past due, 3 months to 12 months past due and over 1 year past due; and
- a write-off of accounts receivable with a gross carrying amount of HK\$4,399,000 resulted in a decrease in loss allowance of HK\$4,399,000.

The credit quality of other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the other receivables excluding prepayments is assessed to be close to zero.

### **Interest rate risk**

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 29 to the consolidated financial statements.

The Group's policy is to minimise the interest rate risk for interest-bearing borrowings with an original tenor of more than one year by fixing the interest rate at the commencement of the tenor. The Group may make use of interest rate swaps transactions in order to effect fixed interest rates for such borrowings if required.

At the end of the reporting period, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss before tax would decrease/increase by HK\$Nil (2018: HK\$691,000) but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility.

The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle the financial liabilities at the end of the reporting period is summarised below:

	31 December 2019				
	Total carrying value HK\$'000	Total contractual undiscounted cash flow HK\$'000	On demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000
Accounts and other payables	47,136	47,136	47,136	-	-
Lease liabilities	5,300	5,442	-	3,263	2,179
Convertible bonds	401,834	412,500	-	-	412,500
<b>Total</b>	<b>454,270</b>	<b>465,078</b>	<b>47,136</b>	<b>3,263</b>	<b>414,679</b>

	31 December 2018				
	Total carrying value HK\$'000	Total contractual undiscounted cash flow HK\$'000	On demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000
Accounts and other payables	35,831	35,831	35,831	-	-
Interest-bearing borrowings	4,538	4,821	-	4,821	-
Contingent consideration – convertible bonds	212,314	240,000	-	240,000	-
Convertible bonds	397,439	427,140	-	-	427,140
<b>Total</b>	<b>650,122</b>	<b>707,792</b>	<b>35,831</b>	<b>244,821</b>	<b>427,140</b>

### Fair value

The carrying amount of the Group's financial assets and financial liabilities carried at other than fair value are not materially different from their fair value as at 31 December 2019 and 2018.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 40. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. The capital structure of the Group consists of equity attributable to shareholders (comprising issued capital and reserves). No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018.

## 41. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

### Assets and liabilities measured at fair value

	<b>31 December</b>			
	<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Assets measured at fair value</i>				
– Financial assets at fair value through profit or loss	1,091	1,091	–	–
– Financial assets at fair value through other comprehensive income	62,148	–	–	62,148



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 41. FAIR VALUE MEASUREMENTS (Continued)

### Assets and liabilities measured at fair value (Continued)

	31 December 2018 HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<i>Assets measured at fair value</i>				
– Financial assets at fair value through profit or loss	19,503	2,698	–	16,805
– Derivative financial assets	7,143	–	–	7,143
– Financial assets at fair value through other comprehensive income	60,506	–	–	60,506
<i>Liabilities measured at fair value</i>				
Contingent consideration				
– convertible bonds (note 35)	212,314	–	–	212,314

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

### Movements in Level 3 fair value measurements

Description	Assets				Liabilities	
	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss		Contingent consideration Convertible bonds	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
At beginning of the reporting period	60,506	80,537	26,646	12,129	212,314	205,915
Additions	–	–	–	18,839	–	–
Net change in fair value	1,642	(20,031)	23,623	(4,322)	27,686	6,399
Derecognised during the year	–	–	(49,178)	–	(240,000)	–
<b>At end of the reporting period</b>	<b>62,148</b>	<b>60,506</b>	<b>1,091</b>	<b>26,646</b>	<b>–</b>	<b>212,314</b>

The above gains or losses are reported as "fair value gain on financial assets at fair value through profit or loss" in other income and fair value loss on contingent consideration – convertible bonds.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Pursuant to the Hong Kong Companies Ordinance, the statement of financial position of the Company and the movements in its reserves are set out below:

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		60	–
Right-of-use assets		1,793	–
Interest in subsidiaries	43	600,814	1,108,656
Loans to a subsidiary		40,000	40,000
Financial assets at fair value through other comprehensive income		35,071	38,403
Deposit for unlisted investment		–	2,340
		<b>677,738</b>	<b>1,189,399</b>
<b>Current assets</b>			
Accounts and other receivables		45,427	36,404
Derivative financial assets		–	2,658
Financial assets at fair value through profit or loss		–	16,805
Amount due from a director		6,140	9,057
Bank balances and cash		625	53,605
		<b>52,192</b>	<b>118,529</b>
<b>Current liabilities</b>			
Other payables		12,119	10,069
Lease liabilities		734	–
Contingent consideration – convertible bonds		–	212,314
		<b>12,853</b>	<b>222,383</b>
<b>Net current assets/(liabilities)</b>		<b>39,339</b>	<b>(103,854)</b>
<b>Total assets less current liabilities</b>		<b>717,077</b>	<b>1,085,545</b>
<b>Non-current liabilities</b>			
Lease liabilities		1,071	–
Convertible bonds		401,834	397,439
		<b>402,905</b>	<b>397,439</b>
<b>NET ASSETS</b>		<b>314,172</b>	<b>688,106</b>
<b>Capital and reserves</b>			
Share capital		80,807	77,607
Reserves		233,365	610,499
<b>TOTAL EQUITY</b>		<b>314,172</b>	<b>688,106</b>

Approved and authorised for issue by the Board of Directors on 22 June 2020 and signed on its behalf by

**Hsu Tung Chi**  
Director

**Zhang Jing**  
Director





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### (a) Reserves

	Share premium HK\$'000 (Note (i))	Contributed surplus HK\$'000 (Note (ii))	Special reserve HK\$'000 (Note (iii))	Share option reserve HK\$'000 (Note (iv))	Convertible bonds reserve HK\$'000	FVTOCI reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2018	948,417	3,047	-	-	60,928	-	(339,889)	672,503
Effect on initial application of HKFRS 9	-	-	-	-	-	741	-	741
Adjusted balance at 1 January 2018	948,417	3,047	-	-	60,928	741	(339,889)	673,244
Loss for the year	-	-	-	-	-	-	(66,792)	(66,792)
Other comprehensive income								
Item that will not be reclassified to profit or loss								
Fair value change of FVTOCI	-	-	-	-	-	115	-	115
Total comprehensive income for the year	-	-	-	-	-	115	(66,792)	(66,677)
Transactions with equity holders								
Contribution and distribution								
Share-base payment	-	-	-	3,932	-	-	-	3,932
Repurchase of shares	-	-	(50)	-	-	-	-	(50)
Total transactions with equity holders	-	-	(50)	3,932	-	-	-	3,882
At 31 December 2018	948,417	3,047	(50)	3,932	60,928	856	(406,681)	610,449
<b>At 1 January 2019</b>	<b>948,417</b>	<b>3,047</b>	<b>(50)</b>	<b>3,932</b>	<b>60,928</b>	<b>856</b>	<b>(406,681)</b>	<b>610,449</b>
<b>Loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(351,812)</b>	<b>(351,812)</b>
Other comprehensive income								
Item that will not be reclassified to profit or loss								
Fair value change of FVTOCI	-	-	-	-	-	(3,332)	-	(3,332)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,332)</b>	<b>(351,812)</b>	<b>(355,144)</b>
Transactions with equity holders								
Contribution and distribution								
Issue of shares under subscription	7,040	-	-	-	-	-	-	7,040
Share-base payment	-	-	-	4,654	-	-	-	4,654
Lapsed of share options	-	-	-	(1,356)	-	-	1,356	-
Derecognition of convertible bonds	-	-	-	-	(9,056)	-	9,056	-
Repurchase of shares	-	-	(156)	-	-	-	-	(156)
Derecognition of contingent consideration	-	-	(33,478)	-	-	-	-	(33,478)
Total transactions with equity holders	7,040	-	(33,634)	3,298	(9,056)	-	10,412	(21,940)
<b>At 31 December 2019</b>	<b>955,457</b>	<b>3,047</b>	<b>(33,684)</b>	<b>7,230</b>	<b>51,872</b>	<b>(2,476)</b>	<b>(748,081)</b>	<b>233,365</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### (a) Reserves (Continued)

Notes:

- (i) The share premium represents the excess of the proceeds or considerations from issuance of the Company's shares over their par value. The share premium of the Company is available for distribution to shareholders subject to certain requirements of the Company Act 1981 of Bermuda (as amended).
- (ii) The contributed surplus of the Company arose from the Group Reorganisation which took place in 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of the subsidiaries acquired during the Group Reorganisation.
- (iii) The special reserve represents the repurchase of shares and derecognition of contingent shares.
- (iv) The share option reserve represents the fair value of the actual or estimated number of unexercised or lapsed share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 3 to these consolidated financial statements.
- (v) At the end of the reporting period, the Company has no reserves available for distribution to the equity holders of the Company.

## 43. SUBSIDIARIES

- (i) Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
Rise Assets Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	100%	-	Investment holding
Wonder Link Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	100%	Investment holding
Marvel Cosmos Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	100%	Investment holding
Silver Season Investments Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	100%	Investment holding
Cheer Plan Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	100%	Investment holding



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>Far Glory Group</b>						
Far Glory Limited	British Virgin Islands/limited liability company	Hong Kong	10,900 shares of US\$1 each	-	97.61%	Investment holding
Great Wave Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	97.61%	Investment holding
Sky Asia Investments Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	-	97.61%	Investment holding
Beijing LianYiHuiZhong Technology Company Limited * 北京聯易匯眾科技有限公司	The PRC/foreign wholly-owned enterprise	The PRC	Registered capital of HK\$6,000,000	-	97.61%	Distribution of copyright-protected items and other entertainment-related business
Beijing Orient Liheng Television Media Company Limited * 北京東方力恆影視傳媒有限公司	The PRC/limited liability company	The PRC	Registered capital of RMB3,000,000	-	97.61%	Production of television drama series and talent management
<b>ODE Group</b>						
Orient Digital Entertainment Company Limited	British Virgin Islands/limited liability company	Hong Kong	1,000 shares of US\$1 each	-	100%	Investment holding
Orient Digital Entertainment Limited	Hong Kong/limited liability company	Hong Kong	1,000 shares with capital of HK\$1,000	-	100%	Licensing and sale of entertainment content and products
Beijing Orient Lixiang Culture Media Company Limited** 北京東方理想文化傳播有限公司 (「東方理想」)	The PRC/foreign wholly-owned enterprise	The PRC	Registered capital of RMB2,000,000	-	100%	Investment management focusing on investments in the cultural industry



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>ODE Group (Continued)</b>						
Khorgas Jieshuo Culture Communication Co, Ltd**2 霍爾果斯杰碩文化傳播有限公司 (「霍爾果斯杰碩」)	The PRC/limited liability company	The PRC	Registered capital of RMB1,000,000	-	100%	Provision of consultancy services in cultural industry
Beijing Star Dream Investment Culture Co., Ltd* 北京明星夢投文化有限公司 (「明星夢投」)	The PRC/limited liability company	The PRC	Registered capital of RMB700,000	-	100%	Provision of consultancy services in cultural industry
Shanghai Xin Ke Culture Media Company Limited**3 上海歆珂文化傳媒有限公司 (「上海歆珂」)	The PRC/limited liability company	The PRC	Registered capital of RMB500,000	-	100%	Provision of entertainment project planning, celebrity management and production of online streaming content
Beijing Digital Weixi Culture & Creative Co., Ltd**4 北京數碼維稀文化創意有限公司 (「數碼維稀」)	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	-	51%	Operations and management of eSports team
<b>Nova Dragon Group</b>						
Nova Dragon International Limited	British Virgin Islands/limited liability company	Hong Kong	10 shares of US\$1 each	-	100%	Investment holding
MVP Sports Marketing Company Limited	Hong Kong/limited liability company	Hong Kong	10,000 shares with capital of HK\$10,000	-	100%	Assisting professional athletes in marketing and promotional activities



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>Socle Group</b>						
Socle Limited	British Virgin Islands/limited liability company	Hong Kong	1,000 shares with no par value	-	100%	Investment holding
Imagine Communications Holding Limited	Cayman Islands/limited liability company	Hong Kong	2,000 shares of US\$0.001 each	-	100%	Investment holding
Olympic Wealth Limited	British Virgin Islands/limited liability company	The PRC	1 share of US\$1 each	-	100%	Licensing of professional sports events and entertainment content
Star Global Management Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	-	100%	Inactive
Goldline Enterprises Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	-	100%	Investment holding
Orient Ace Holdings Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	-	100%	Investment holding
Shenzhen Chuangzhan Corporate Image Planning Limited* 深圳創展企業形象策劃有限公司	The PRC/foreign wholly-owned enterprise	The PRC	Registered capital of RMB500,000	-	100%	Investment holding
Shanghai YiTiDongLi Cultural and Sports Communications Limited* 上海壹體動力文化體育傳播有限公司	The PRC/limited liability company	The PRC	Registered capital of RMB2,000,000	-	100%	Licensing of professional sports events and entertainment content



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>Dream World Group</b>						
Dream World Holdings Limited	Cayman Islands/limited liability company	Hong Kong	50,000,000 shares of USD0.001 each	100%	–	Investment holding
China Dream World (HK) Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	–	100%	Investment holding
Harvest (Shanghai) Management Limited <sup>*45</sup> 哈法斯(上海)商業管理有限公司 (「哈法斯」)	The PRC/foreign wholly-owned enterprise	The PRC	Registered capital of RMB10,000,000	–	100%	Investment holding
Kunshan Dream World Business Management Co., Ltd <sup>*46</sup> 昆山夢世界商業管理有限公司 (「昆山夢世界」)	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	–	100%	Operating film-based cultural parks and tourism focused projects
Khorgas Meng Qiao Business Management Co., Ltd <sup>*47</sup> 霍爾果斯夢橋商業管理有限公司 (「霍爾果斯夢橋」)	The PRC/limited liability company	The PRC	Registered capital of RMB1,000,000	–	100%	Provision of entertainment project planning and production of music concert
<b>Summer Eagle Group</b>						
Summer Eagle Limited	British Virgin Islands/limited liability company	Hong Kong	100 shares of US\$1 each	100%	–	Investment holding
Summer Eagle Limited Taiwan Branch	Taiwan/limited liability company	Taiwan	Paid-up capital of NT\$5,000,000	–	100%	Investment holding
Jieyi Wenchuang Company Limited* 杰藝文創有限公司	Taiwan/limited liability company	Taiwan	Paid-up capital of NT\$20,000,000	–	100%	Business of training, nurturing and managing eSports teams and eSports broadcasters



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>Summer Eagle Group (Continued)</b>						
Digital Culture and Creative Company Limited 數碼文創有限公司	Taiwan/limited liability company	Taiwan	Paid-up capital of NT\$11,000,000	-	100%	Business of training, nurturing and managing eSports teams and eSports broadcasters
VGJ LLC	USA/limited liability company	USA	10,000,000 shares with US\$0.01 each	-	70%	Management and operations of professional eSports teams
<b>Star Sail Group</b>						
Star Sail Enterprises Limited	British Virgin Islands/limited liability company	Hong Kong	100 shares with capital of HK\$100	100%	-	Investment holding
Star Sail Entertainment Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	-	100%	Inactive
The Players Limited 幕後玩家有限公司	Hong Kong/limited liability company	Hong Kong	100 shares with capital of HK\$100	-	100%	Business of training, nurturing and managing eSports teams and eSports broadcasters
Xiamang Network Technology Jiangsu Company Limited*10 鑫芒網絡科技江蘇有限公司 (「鑫芒」)	The PRC/limited liability company	The PRC	Registered capital of US\$10,000,000	-	60%	Provision of consultancy services in cultural industry



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 43. SUBSIDIARIES (Continued)

(i) Particulars of the subsidiaries of the Company are as follows: (Continued)

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
<b>Vector Vision Group</b>						
Vector Vision Enterprises Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US\$1 each	100%	-	Investment holding
Vector Vision (HK) Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK\$1	-	100%	Investment holding
Tongxinji New Town (Shanghai) Consulting Company Limited <sup>*#8</sup> 同心濟新城鎮(上海)諮詢顧問有限公司(「同心濟」)	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	-	100%	Provision of celebrity and artists training
Khorgas Tongxinji New Town Consulting Company Limited <sup>*#9</sup> 霍爾果斯同心濟新城鎮諮詢顧問有限公司(「霍爾果斯同心濟」)	The PRC/limited liability company	The PRC	Registered capital of RMB1,000,000	-	100%	Inactive

\* English translation of company name is for identification purpose only.

#1 At 31 December 2019, 東方理想 had no paid-up capital. Its capital is to be fully paid-up before 17 March 2027.

#2 At 31 December 2019, 霍爾果斯杰碩 had no paid-up capital. Its capital is to be fully paid-up before 30 June 2036.

#3 At 31 December 2019, 上海歆珂 had no paid-up capital. Its capital is to be fully paid up before 2 March 2025.

#4 At 31 December 2019, 數碼維稀 had no paid-up capital. Its capital is to be fully paid up before 1 August 2026.

#5 At 31 December 2019, 哈法斯 had no paid-up capital. Its capital is to be fully paid up before 24 November 2024.

#6 At 31 December 2019, 昆山夢世界 had no paid-up capital. Its capital is to be fully paid up before 31 December 2038.

#7 At 31 December 2019, 霍爾果斯夢橋 had no paid-up capital. Its capital is to be fully paid-up before 30 June 2037.

#8 At 31 December 2019, 同心濟 had no paid-up capital. Its capital is to be fully paid-up before 8 May 2024.

#9 At 31 December 2019, 霍爾果斯同心濟 had no paid-up capital. Its capital is to be fully paid-up before 30 August 2037.

#10 At 31 December 2019, 鑫芒 had no paid-up capital. Its capital is to be fully paid-up before 25 December 2038.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

## 44. 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 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 report, 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.