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CHINA DIGITAL CULTURE (GROUP) LIMITED

中國數碼文化(集團)有限公司

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

(Stock Code: 8175)

MAJOR TRANSACTION IN RESPECT OF THE DISPOSAL OF ENTIRE ISSUED SHARE CAPITAL OF DREAM WORLD HOLDINGS LIMITED

THE DISPOSAL

On 4 March 2022 (after the trading hours), the Vendor, being the Company entered into the Disposal Agreement with the Purchaser, whereby the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued share capital of the Disposal Company at the consideration of HK\$50,000,000.

IMPLICATIONS UNDER THE GEM LISTING RULES

As one or more of the relevant percentage ratios (as defined in the GEM Listing Rules) in respect of the Disposal exceed 25% but are below 75%, the Disposal constitutes a major transaction of the Company and is subject to reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

GENERAL

An EGM will be convened to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder (including the Disposal and the Receipt of the Promissory Note). To the best of the Directors' knowledge, information and belief, no Shareholder is required to abstain from voting in favour of the proposed resolutions relating to the Disposal Agreement and the transactions contemplated thereunder (including the Disposal and the Receipt of the Promissory Note).

A circular containing, amongst others, further details of the Disposal and other information as required under the GEM Listing Rules; and a notice of the EGM will be despatched to the Shareholders on or before 8 April 2022.

The Board announces that on 4 March 2022 (after trading hours), the Vendor and the Purchaser entered into the Disposal Agreement in respect of the Disposal. Details of the Disposal are set out as follows:

THE DISPOSAL AGREEMENT

Date

4 March 2022 (after trading hours)

Parties

Vendor: the Company

Purchaser: China Minsheng Foundation Group Co., Ltd* 中民基業集團有限公司

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser is ultimately beneficially owned by National Ethnic Affairs Commission Agency Service Bureau* 國家民族事務委員會機關服務局. The Purchaser and its ultimate beneficial owner are third parties independent of the Company and the connected persons of the Company.

Asset to be disposed of

The assets to be disposed of under the Disposal Agreement are the Sale Shares, being 100 ordinary shares of US\$0.001 each in the issued share capital of the Disposal Company, representing the entire issued share capital of the Disposal Company.

Consideration

Pursuant to the Disposal Agreement, the Consideration of HK\$50,000,000 will be settled:

- (i) as to HK\$5,000,000 being the deposit by the Purchaser in cash (the “**Deposit**”) within 10 Business Days upon obtaining all necessary approvals or consents from the Stock Exchange in relation to the transactions contemplated under the Disposal Agreement; and
- (ii) as to HK\$45,000,000 being the balance of the Consideration by way of the Promissory Notes issued by the Purchaser to the Vendor at Completion.

The Consideration was determined after arm’s length negotiations between the Vendor and the Purchaser with reference to the historical performance and the future prospect of the Disposal Group as well as the unaudited consolidated net asset value of the Disposal Group as at 31 December 2021 of approximately HK\$216.76 million.

The Consideration represents a discount of approximately 76.93% of the unaudited net asset value of the Disposal Group. A significant discount was made on the Consideration for the following reasons:

The trading of shares of the Company is currently suspended pending fulfilment of the Resumption Guidance and to address the issues giving rise to the disclaimer of opinion on the 2020 Annual Results Announcement. Since one of the disclaimer of opinion of the Company was mainly caused by the potential impairment of the assets of the Disposal Group, the Board is considering to dispose the Disposal Group in order to resolve the audit issue and fulfill the Resumption Guidance.

If the Company fails to fulfil the Resumption Guidance and comply with the GEM Listing Rules to the Stock Exchange’s satisfaction and resume trading in its shares, the listing position of the Company will be cancelled. In view of the limited period of time, the Board considers it is the top priority to dispose the Disposal Group in order to remove such audit qualification as soon as possible.

However, given (i) the continuous loss-making performance of the Disposal Group; (ii) uncertainty in the construction completion date of the Theme Park; and (iii) further working capital is required for Disposal Group upon its operation, it would be difficult to identify a concrete buyer within a short period of time if the consideration is not at a significant discount to its net asset value.

Furthermore, if the Company continues to carry on the business of Disposal Group, the Company is required to inject further capital for its operation of Theme Park. In view of the Company's current financial position, the Company may not be able to inject further capital to the Disposal Group for its operation. And this is a potential risk which may give rise to a material adverse impact on the Group's future business and financial position. Taking into account the abovementioned factors, the Directors believe even though the Consideration represented a significant discount to the net asset value of Disposal Group, the disposal is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Principal terms of the Promissory Note

The principal terms of the Promissory Note are summarised as follows:

| | | |
|-------------------------|---|---|
| Issuer | : | the Purchaser |
| Principal amount | : | HK\$45,000,000 |
| Issuance date | : | Completion Date |
| Term | : | 3 years commencing from the issue date of the Promissory Note |
| Maturity date | : | The day falling on the third anniversary of the first issue date of the Promissory Note (“ Maturity Date ”) |
| Interest | : | Nil |
| Early repayment | : | The Purchaser may in its sole discretion, with not less than five business days' prior written notice, elect to repay all or any part of the amount outstanding under the Promissory Note (which shall be in amount(s) not less than HK\$1,000,000 unless the outstanding amount is less than HK\$1,000,000) together with interest accrued thereon at any time prior to the Maturity Date. |

Security

: At Completion, the Purchaser shall execute the Share Charge in favour of the Vendor over the Sale Shares for securing the repayment of the Promissory Note to the effect that the Sale Shares be charged to the Vendor and that the Sale Shares and all the benefits thereof shall be a continuing security for the Promissory Note.

The security created by the Share Charge shall not be considered satisfied or discharged by any intermediate payment or satisfaction of part of the Purchaser's obligations under the Promissory Note, but shall be a continuing security and shall extend to cover any sum which shall at any time constitute the balance due from the Purchaser to the Vendor under the Promissory Note.

Conditions precedent

Completion of the Disposal Agreement is conditional upon satisfaction of all of the following conditions:

1. the Vendor having obtained the approval by the Board and its shareholders' approval in a general meeting of the entering into of the Disposal Agreement and the transactions contemplated thereunder; and
2. the relevant governmental and regulatory authorities having granted all the necessary approvals, consents, authorizations and licences in relation to the transactions contemplated under the Disposal Agreement.

If the conditions have not been fulfilled within three months from the date of the Disposal Agreement or such later date as the parties to the Disposal Agreement may agree in writing, the Disposal Agreement shall be terminated and the Deposit will be returned in full to the Purchaser.

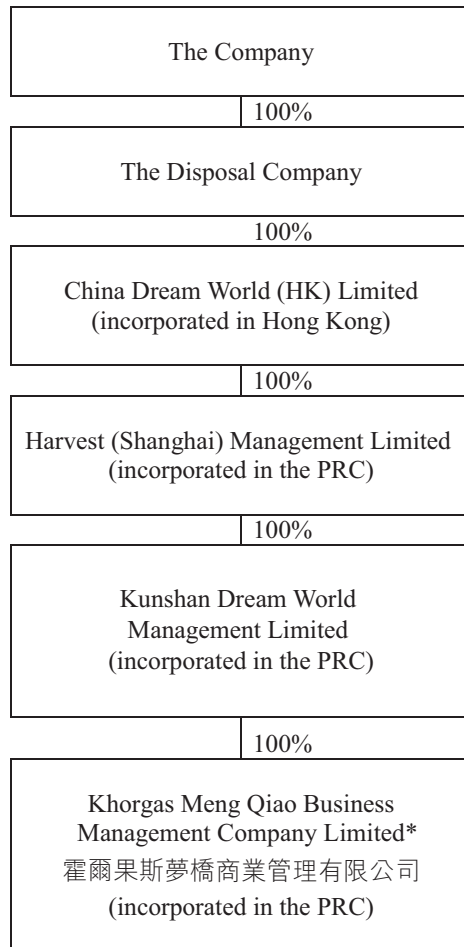
Completion

Completion shall take place on the date on which the conditions precedent to the Disposal Agreement had been completely fulfilled or such other date as the Vendor and Purchaser may agree in writing.

INFORMATION OF THE DISPOSAL GROUP

The Disposal Company is an investment holdings incorporated in the Cayman Islands and is a wholly-owned subsidiary of the Vendor immediately prior to Completion.

The corporate structure of the Disposal Group as at the date of this announcement is set out as follow:



The Disposal Company holds the entire issued share capital of China Dream World (HK) Limited, an investment holding company incorporated in Hong Kong with limited liability, which in turn holds 100% equity interest in Harvest (Shanghai) Management Limited, an investment holding company established under the laws of the PRC. It holds 100% equity interest in Kunshan Dream World Management Limited established under the laws of the PRC, which in turn holds 100% equity interest in 霍爾果斯夢橋商業管理有限公司 Khorgas Meng Qiao Business Management Company Limited* established under the laws of the PRC.

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

In 2011, the Disposal Group entered into a cooperation agreement (the “**Cooperation Agreement**”), with 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”) and its subsidiaries (the “**Project Company**”) pursuant to which the Disposal Group obtained the operating right of the Theme Park for 40 years. According to the Cooperation Agreement, the ownership of all immovable assets connected to the Theme Park, with all costs and expenses for the construction, development, and maintenance before completing the Theme Park, shall be vested to the Project Company. Accordingly, the timing of commencing the Theme Park business was depends on the completion of the Theme Park. As at the date of this announcement, the development of Theme Park was still in progress and the Company was unable to obtain a viable completion date of the Theme Park from the Project Company.

Set out below summaries the audited consolidated financial information of the Disposal Group for the two financial years ended 31 December 2019 and 2020:

| | For the year ended | |
|--|---------------------------|------------------|
| | 31 December | |
| | 2019 | 2020 |
| | (audited) | (audited) |
| | <i>HK\$</i> | <i>HK\$</i> |
| Turnover | 11,111,000 | 4,005,000 |
| Loss before taxation and extraordinary items | 127,908,000 | 6,748,000 |
| Loss after taxation and extraordinary items | 127,908,000 | 6,748,000 |

The unaudited net asset value of Disposal Group as at 31 December 2021 was approximately HK\$216.76 million.

INFORMATION ON THE PURCHASER

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Purchaser is a company established in the PRC and is a wholly-owned subsidiary of National Ethnic Affairs Commission Agency Service Bureau* 國家民族事務委員會機關服務局. The Purchaser is a state-owned company in PRC which principally engaged in organizing cultural and artistic exchange activities business. According to the financial information provided by the Purchaser, the total assets of the Purchaser's group as at 31 December 2021 was RMB1.3 billion. For the financial year ended 31 December 2021, its revenue and net profit are RMB4.6 billion and RMB18 million respectively. The Board believed that the Purchaser could meet the payment obligations under the Disposal Agreement given its solid financial and industry background.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, the Company will cease to hold any interest in the Disposal Company and the Disposal Company will cease to be a subsidiary of the Company. The financial results of the Disposal Group will no longer be consolidated into the Group's financial statements.

The Disposal is expected to realize a net loss of approximately HK\$166,760,000 for the Group which is derived from the difference between the Consideration of HK\$50,000,000 and the net asset value of the Disposal Company of approximately HK\$216,760,000 based on the management accounts of the Disposal Company as of 31 December 2021.

The actual financial impacts of the Disposal is subject to the review of the Company's auditors. Save for the expected net loss on Disposal, the Disposal does not have any material effect on the earnings, assets and liabilities of the Group.

INTENDED USE OF PROCEEDS

Upon Completion, the gross proceeds and net proceeds of the Disposal will be HK\$50 million and approximately HK\$49 million, respectively. The Board intends to apply the net proceeds for the repayment of outstanding principal of convertible bonds and working capital of the Group.

REASONS FOR THE DISPOSAL

As at the date of this announcement, the Group is 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.

In view of the latest status of the Theme Park, the Board has considered to dispose the entire issued share capital of Disposal Company after considering the following factors:

1. Further delay in the completion of construction and commencement of operation of the Theme Park

According to the original schedule, the construction of the Theme Park was expected to be completed in 2017 and was expected to commence operations in 2018. The progress of Theme Park was substantially delayed due to the COVID-19 pandemic. And as of today, the Management was still unable to determine the expected completion date of the Theme Park. Therefore, the commencement of operation of the Theme Park is expected to be further delayed, and as a result, no revenue is expected in the foreseeable future.

Since the current audit qualification of the Company was mainly caused by the uncertain completion and commencement date of the Theme Park, which lead to potential impairment of its assets, the Board is considering to dispose the Theme Park in order to preserve the maximum value. Furthermore, if the Company fails to fulfil the Resumption Guidance and comply with the GEM Listing Rules to the Stock Exchange's satisfaction and resume trading in its shares, the listing position of the Company will be cancelled. Therefore further delay in the commencement date of the Theme Park will jeopardise the listing position of the Company. The Board considers that it is the best interest now for the Company to dispose the Theme Park to preserve its maximum value provided there is a buyer with solid financial background.

2. Further capital investment is required for future operation of the Theme Park

As development and future operation of the Theme Park will require significant capital investment, large amount of cashflow is therefore required by the Company; and according to the representations by the Disposal Group and the Project Company, the development of the Theme Park costs approximately RMB1.76 billion in total. The Disposal Group anticipates operational capital expenditures to commence in 2023 as replacement and maintenance of equipment of the Theme Park. The Disposal Group expects to spend approximately RMB40 million in capital investment every year commencing in 2023.

If the Company continues to carry on the business of the Disposal Group, it is estimated that the Company is required to inject further capital to the Disposal Group for its operation. In view of the Company's current financial position, the Company may not be able to further inject capital to the Disposal Group for its operation.

Taking into account the abovementioned factors, the Directors believe the prospect of the Theme Park business carried out by the Disposal Group is subject to grave uncertainty. The Directors do not expect that Theme Park could be completed and commence its operations in the foreseeable future.

Further, one of the resumption conditions imposed by the Company is to address all audit qualifications raised by the auditors, on the Company's financial statements for the year ended 31 December 2020. One of the audit qualification is attributable to the uncertain completion and commencement date of operation of the Theme Park. Hence, the Directors believe that the Disposal is the only means to satisfy such resumption condition.

The Directors also consider that the terms and conditions of the Disposal are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As one or more of the relevant percentage ratios (as defined in the GEM Listing Rules) in respect of the Disposal exceed 25% but are below 75%, the Disposal constitutes a major transaction of the Company and is subject to reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

GENERAL

An EGM will be convened to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder (including the Disposal and the Receipt of the Promissory Note). To the best of the Directors' knowledge, information and belief, no Shareholder is required to abstain from voting in favour of the proposed resolutions relating to the Disposal Agreement and the transactions contemplated thereunder.

A circular containing, amongst others, details of the Disposal and a notice of the EGM will be despatched to the Shareholders in accordance with the requirements of the GEM Listing Rules on or before 8 April 2022.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2021. Pending fulfilment of the Resumption Guidance, trading in the Shares on the Stock Exchange will remain suspended until further notice.

Shareholders and investors should note that the Disposal are subject to, inter alia, Shareholders' approval at the EGM and therefore the Disposal may or may not be effected. As such, Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings.

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| “Board” | the board of Directors |
| “Business Day” | a day (other than Saturday, Sunday, public holiday and any day on which a typhoon signal 8 or above is hoisted or a black rainstorm warning is given in Hong Kong at any time during 9:00 a.m. to 5:00 p.m.) on which banks in Hong Kong are open for general banking business |
| “Company” or “Vendor” | China Digital Culture (Group) Limited, a company incorporated under the laws of the Bermuda with limited liability, the shares of which are listed on GEM |
| “Completion” | the completion of the Disposal |
| “Completion Date” | the completion date of the Disposal on which all the conditions precedent of the Disposal Agreement having been satisfied |

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| “connected person” | has the meaning ascribed to it in the GEM Listing Rules |
| “Consideration” | consideration of the Disposal amounted to HK\$50,000,000 |
| “Disposal” | the disposal of the Sale Shares, representing entire issued share capital of the Disposal Company by the Vendor to the Purchaser pursuant to the Disposal Agreement |
| “Disposal Agreement” | the sale and purchase agreement dated 4 March 2022 entered into between the Company and the Purchaser in relation to the Disposal |
| “Disposal Company” | Dream World Holdings Limited, a company incorporated in the Cayman Islands with limited liability |
| “Disposal Group” | the Disposal Company and its subsidiaries |
| “Director(s)” | means the directors of the Company |
| “EGM” | an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Disposal Agreement and the transactions contemplated thereunder (including the Disposal and the Receipt of the Promissory Note) |
| “GEM” | the Growth Enterprise Market operated by the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |

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|--------------------------------|--|
| “Independent Third Party(ies)” | the independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, independent of the Company and its/their connected persons (as defined under the GEM Listing Rules) |
| “PRC” | the People’s Republic of China |
| “Promissory Note” | the promissory note in the principal amount of HK\$45,000,000, being the balance of Consideration, to be issued by the Purchaser to the Vendor at Completion |
| “Purchaser” | China Minsheng Foundation Group Co., Ltd* 中民基業集團有限公司, a company incorporated in PRC with limited liability |
| “Resumption Guidance” | the resumption guidance issued by the Stock Exchange on 17 June 2021 for the resumption of trading in shares of the Company |
| “Share(s)” | ordinary shares of par value HK\$0.01 each in the issued share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Sale Shares” | 100 shares of US\$0.001 each in the share capital of the Disposal Company, representing 100% of the issued share capital of the Disposal Company, legally and beneficially owned by the Company immediately prior to Completion |
| “Share Charge” | the share charge to be executed by the Purchaser in favour of the Vendor over the Sale Shares at Completion for securing the repayment of the Promissory Note |

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent.

* For identification purpose only

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

Hong Kong, 4 March 2022

As at the date of this announcement, the executive Directors are Mr. Hsu Tung Chi, Ms. Zhang Jing and Mr. Ng Fung Tai. The independent non-executive Directors are Mr. Wang Ming Jiun, Mr. Gou Yanlin and Mr. Hong Hui Lung.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement in this announcement misleading.

This announcement will remain on GEM website on the “Latest Listed Company Information” page for at least 7 days from the date of its posting and on the website of the Company at <http://www.cdculture.com>.