CNCG

CHINA NATIONAL CULTURE GROUP LIMITED
中國國家文化產業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 745)

SUPPLEMENTAL ANNOUNCEMENT – IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the annual report (the "**Annual Report**") of China National Culture Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 March 2018 published on 27 July 2018. Capitalised terms used herein shall have the same meanings as those defined in the Annual Report unless the context requires otherwise.

Further to the information disclosed in the Annual Report, the board of directors of the Company (the "**Board**") would like to provide to the shareholders of the Company and the potential investors with the following supplementary information:

USE OF PROCEEDS

As at 31 March 2018, the application of the net proceeds of approximately HK$480,283,000 from the open offer completed during the year ended 31 March 2016 has been fully utilised as intended.

IMPAIRMENT LOSSES OF GOODWILL

The detailed reasons leading to impairment losses of goodwill in relation to the Company's cash generating units (the "**CGUs**") for the year ended 31 March 2018 are as follows:

As at 31 March 2018, the details of goodwill and the impairment loss for each CGU are showed as follows:

	Notes	**Goodwill (after the impairment loss) as at 31 March 2018** *HK$'000*	**Impairment during the year ended 31 March 2018** *HK$'000*
Huge Leader Development Limited and its subsidiaries	*(a)*	–	31,600
Dynamic Thinker Limited	*(b)*	35,805	13,011
Group Wise Holdings Limited	*(c)*	8,000	15,180
		43,805	59,791

Notes:

(a) During the year ended 31 March 2018, the Group fully impaired its goodwill arose from the acquisition of Huge Leader Development Limited and its subsidiaries ("**Huge Leader Group**") on 31 March 2012. At the date of acquisition, Huge Leader Group principally engaged in the operation of a mobile phone application ("**Dining App**") which was under development at the date of acquisition. The Dining App is a whole new platform for the food & beverage industry to market and promote their businesses and to keep connected with their customers. The Dining App will be deployed as the personalised mobile app for each restaurant. By using the Dining App, consumers will be able to access key information of restaurants such as location and contact information as well as other special information such as the menu of restaurants.

The management of the Group has considered that the Dining App was the future trend of restaurant booking. This was the right direction to keep the Group staying competitive in the food & beverage advertising industry. However, due to limited resources of the Group comparing with the giant competitors and also the relatively conservative approach of our management, the Group was not able to spend similar efforts and resources on marketing and promotion on the Dining App when comparing with the other similar apps operated by competitors, such as GULU, Uber Eats and eatigo. Most of them spent lots of money and efforts on marketing and promotion to gain the market shares.

Up to 31 March 2018, (1) the updated version of the Dining App has not been launched to the market yet as certain modifications on graphical design development and content development was still in process in order to differentiate the Dining App from other similar apps existing in the market; (2) the Group did not have sufficient resources to spend on marketing and promotion, such as incentives and compensation to restaurants., comparing with the competitors.

In preparing the consolidated financial statements for the year ended 31 March 2018, we have performed the impairment assessment on the goodwill arose from the acquisition of Huge Leader Group. In the impairment assessment, we considered that many similar apps were already entranced the market during the year. Those apps, in addition to provision of a platform for the food & beverage industry to market and to promote their businesses and to keep connected with their customers, they also provide other ancillary services, including delivery of orders, and provision of various payment methods such as WeChat Pay and Alipay. In view of the said market conditions, the expected time to launch the Dining App was delayed, and we have decided to withhold the development of the Dining App. Accordingly, the goodwill of HK$31,600,000 arose from the acquisition of Huge Leader Group was fully impaired during the year ended 31 March 2018.

(b) The balance represented the goodwill arose from the acquisition of Dynamic Thinker Limited ("**Dynamic Thinker**") during the year ended 31 March 2016. Dynamic Thinker principally engaged in operating a website since August 2015. Dynamic Thinker has been granted the sole and exclusive rights to operate, to manage and to maintain the website for 20 years commencing from 5 August 2015. Under the license agreement entered by Dynamic Thinker, Dynamic Thinker is entitled to exploit the website and enjoy all rights and benefits deriving from the website during the license period, i.e. 20 years commencing from 5 August 2015. The website provides internet advertising service to customers in the Mainland China, and provides advertising income to the Group.

In preparing the consolidated financial statements for the year ended 31 March 2018, we have performed the impairment assessment on the goodwill arose from the acquisition of Dynamic Thinker. In the impairment assessment, we performed a cash flow projection for Dynamic Thinker, which the revenue generated in 2018 is lower than the projection previously performed, after taking the consideration of the change in the advertising channel from internet to popular social media platforms, such as WeChat, Weibo or QQ. As a result of unfavourable market condition to advertise through internet, impairment loss of HK$13,011,000 was provided for the goodwill arose from the acquisition of Dynamic Thinker.

(c) The goodwill from Group Wise Holdings Limited ("**Group Wise**") represented the goodwill arose from the acquisition of Group Wise during the year ended 31 March 2017. Group Wise is principally engaged in provision of communication marketing platform services in the Mainland China. Group Wise generated income from provision of services to its customers, restaurants located in the Mainland China, who could use the electronic platform to communicate with their customers via WeChat, and provide services, including but not limited to table reservation, meal ordering or payment service.

During the year ended 31 March 2018, the financial performance of Group Wise was not as good as expected in the cashflow projection performed in 2017. The actual revenue growth rate in 2018 was slowed down by around 10% as compared to the revenue growth rate projected in 2017, and the operating expenses was increased as additional advertising expenses was incurred. As a result, the cash flow projection performed in 2018 considered the actual financial performance for the year ended 31 March 2018 and adopted a lower revenue growth rate. Accordingly, an impairment of approximately HK$15,180,000 was provided for the year ended 31 March 2018.

IMPAIRMENT LOSSES OF ACCOUNTS RECEIVABLE

The detailed reasons leading to impairment losses of the Group's accounts receivable for the year ended 31 March 2018 are as follows:

As at 31 March 2018, a customer from the e-commerce segment with balance of approximately HK$11,272,000 was past due for more than 91 – 365 days. In preparing the Group's consolidated financial statements for the year ended 31 March 2018, we assessed the recoverability of the Group's accounts receivable based on their historical payment records, their past due status and their repayment after the end of the reporting period. In view of the past due status and no repayment was received after the end of the reporting period up to the date of approval of the consolidated financial statements for the year ended 31 March 2018; even the Group has been chasing those customers many times, we considered that the accounts receivable of HK$11,272,000 will not be recoverable as at 31 March 2018 and full impairment of HK$11,272,000 was provided in the relevant profit or loss account.

Although those customers may have some temporary financial difficulties, as long as those customers remain their business relationship with our Group, the Directors consider that majority of the accounts receivable are recoverable subsequently and we would take necessary legal action to chase those customers if needed.

By Order of the Board
China National Culture Group Limited
SUN Wei
Executive Director

2 August 2019

As at the date of this announcement, the Board comprises Ms. SUN Wei and Ms. MAN Qiaozhen as Executive Directors, and Mr. LIU Kwong Sang, Ms. WANG Miaojun and Ms. WANG Yujie as Independent Non-Executive Directors.