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 2019

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 2019 published on 29 July 2019. 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:

IMPAIRMENT LOSSES OF GOODWILL AND INTANGIBLE ASSETS

The Company has engaged an independent valuer (the "**Valuer**") to perform independent valuation relating to each of the impairment losses of goodwill and intangible assets for the year ended 31 March 2019.

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 2019 are as follows:

As at 31 March 2019 and 31 March 2018, the details of goodwill, intangible assets and the impairment loss for each CGU are showed as follows:

		Goodwill (after the impairment loss) as at 31 March		**Impairment loss during the year ended 31 March**	
		2019	2018	**2019**	2018
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Dynamic Thinker Limited	*(a)*	**17,715**	35,805	**15,804**	13,011
Group Wise Holdings Limited	*(b)*	**–**	8,000	**7,490**	15,180
		17,715	43,805	**23,294**	59,791

	Notes	Intangible assets (after the impairment loss) as at 31 March 2019 HK$'000	2018 HK$'000	Impairment loss during the year ended 31 March 2019 HK$'000	2018 HK$'000
Dynamic Thinker Limited	*(a)*	**116,429**	131,997	**–**	–
Group Wise Holdings Limited	*(b)*	**64,032**	108,178	**37,236**	–
		180,461	240,175	**37,236**	–

As at 31 March 2019 and 31 March 2018, a summary of the key inputs and assumptions adopted in the valuations relating to each CGU's impairment of goodwill and intangible assets are showed as follows:

Dynamic Thinker Limited

	2019	2018
Discount rate	**17.00%**	20.00%
Terminal growth rate	**3.00%**	3.00%

Group Wise Holdings Limited

	2019	2018
Discount rate	**14.00%**	15.00%
Terminal growth rate	**3.00%**	3.00%

Notes

(a) The goodwill of Dynamic Thinker Limited ("**Dynamic Thinker**") arose from the acquisition of 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 years ended 31 March 2019 and 31 March 2018, we have engaged the Valuer to perform valuation on the recoverable amount of the CGU based on calculation of value in use, using financial budgets with reference to the relevant CGU's past performances and management's expectations for the market development, where the key assumptions and estimates included the growth rates, discount rates applied and the forecast performance based on management's view of future business prospects.

In preparing the consolidated financial statements for the year ended 31 March 2019, we have performed the impairment assessment on the goodwill arose from the acquisition of Dynamic Thinker on annual basis by reference from the recoverable amount which is referenced to the Valuer. In the impairment assessment, we prepared a cash flow projection for Dynamic Thinker, in which the revenue generated in 2019 is lower than the projection previously budgeted, 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$15,804,000 was provided during the year ended 31 March 2019 for the goodwill arose from the acquisition of Dynamic Thinker.

(b) The goodwill of Group Wise Holdings Limited ("**Group Wise**") 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.

In preparing the consolidated financial statements for the years ended 31 March 2019 and 31 March 2018, we have engaged the Valuer to perform valuation on the recoverable amount of the CGU based on calculation of value in use, using financial budgets with reference to the relevant CGU's past performances and management's expectations for the market development, where the key assumptions and estimates included the growth rates, discount rates applied and the forecast performance based on management's view of future business prospects.

During the year ended 31 March 2019, the financial performance of Group Wise was not as good as expected as the cashflow projection performed in 2018 as we allocated the resources of Group Wise to upgrade the services to meet customers' needs instead of expand the business network to other provinces in the Mainland China. As such, Group Wise has a higher gross profit margin for the year ended 31 March 2019 comparing with 2018, but the actual revenue 2019 was decreased by 27% as compared to the revenue projected in 2018. As a result, the cash flow projection performed in 2019 considered the actual financial performance for the year ended 31 March 2019 and adopted a lower average revenue growth rate of 19% (2018: 30%). In preparing the consolidated financial statements for the year ended 31 March 2019, we have performed the impairment assessment on the goodwill arose from the acquisition of Group Wise on annual basis by reference from the recoverable amount which is referenced to the Valuer.

Accordingly, an impairment loss of approximately HK$7,490,000 and HK$37,236,000 was provided during the year ended 31 March 2019 for the goodwill and intangible assets arose from the acquisition of Group Wise respectively.

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

22 July 2020

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.