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CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00343)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

INTERIM RESULTS

The Board of Directors (the “Directors”) of Culturecom Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2020 together with the comparative figures for the corresponding period of 2019 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

		Six months ended 30 September 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (restated)
	NOTES		
Continuing operations			
Revenue	3	79,576	34,277
Cost of sales		(58,668)	(24,924)
Gross profit		20,908	9,353
Other income	5	1,144	1,771
Other gains and losses	6	(342)	(5,198)
Impairment loss under expected credit loss model, net of reversal		(330)	—
Impairment loss recognised in respect of goodwill	12	(2,494)	—
Selling expenses		(13,746)	(3,532)
Administrative expenses		(19,878)	(17,471)
Other expenses	8	(8,540)	(1,645)
Finance costs	7	(1,225)	(96)
Share of loss of an associate		(26)	(22)
Loss before tax	8	(24,529)	(16,840)
Income tax credit	9	129	25
Loss for the period from continuing operations		(24,400)	(16,815)

		Six months ended 30 September	
		2020	2019
	NOTES	HK\$'000 (unaudited)	HK\$'000 (unaudited) (restated)
Discontinued operations			
Loss for the period from discontinued operations	16	(374)	(579)
Loss for the period		(24,774)	(17,394)
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		3,572	(6,406)
Reclassification of cumulative translation reserve upon disposal of foreign operation		125	—
Other comprehensive income (expense) for the period		3,697	(6,406)
Total comprehensive expense for the period		(21,077)	(23,800)
Loss for the period attributable to owners of the Company:			
— from continuing operations		(19,481)	(12,400)
— from discontinued operations		(302)	(574)
		(19,783)	(12,974)
Loss for the period attributable to non-controlling interests:			
— from continuing operations		(4,919)	(4,415)
— from discontinued operations		(72)	(5)
		(4,991)	(4,420)
		(24,774)	(17,394)
Total comprehensive expense for the period attributable to:			
— owners of the Company		(17,155)	(18,094)
— non-controlling interests		(3,922)	(5,706)
		(21,077)	(23,800)
Total comprehensive expense for the period attributable to owners of the Company:			
— from continuing operations		(16,986)	(17,881)
— from discontinued operations		(169)	(213)
		(17,155)	(18,094)
Loss per share	11		
From continuing and discontinued operations			
Basic (HK cents)		(1.4)	(0.9)
From continuing operations			
Basic (HK cents)		(1.4)	(0.9)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2020

		30 September 2020 <i>NOTES</i> HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		998	993
Right-of-use assets		8,057	1,825
Goodwill	12	10,116	12,126
Interest in an associate		1,192	1,218
Intangible assets		8,631	7,454
Rental deposits		1,285	108
Financial assets at fair value through profit or loss		4,385	715
		<u>34,664</u>	<u>24,439</u>
Current assets			
Inventories		35,634	35,644
Trade receivables	13	29,338	23,128
Other receivables, deposits and prepayments	13	21,459	24,813
Tax recoverable		1,532	1,262
Pledged bank deposit		23,298	23,261
Restricted bank deposit	15	5,115	—
Bank balances and cash		118,140	154,000
		<u>234,516</u>	<u>262,108</u>
Current liabilities			
Trade payables	14	6,961	6,236
Other payables and accrued charges		20,586	29,911
Contract liabilities		922	1,384
Lease liabilities		6,128	1,994
Bank borrowings		15,915	8,749
		<u>50,512</u>	<u>48,274</u>
Net current assets		<u>184,004</u>	<u>213,834</u>
Total assets less current liabilities		<u>218,668</u>	<u>238,273</u>
Non-current liabilities			
Deferred tax liabilities		1,655	1,742
Lease liabilities		2,563	812
		<u>4,218</u>	<u>2,554</u>
Net assets		<u>214,450</u>	<u>235,719</u>
Capital and reserves			
Share capital		13,907	13,907
Share premium and reserves		185,934	206,962
Equity attributable to owners of the Company		<u>199,841</u>	<u>220,869</u>
Non-controlling interests		14,609	14,850
Total equity		<u>214,450</u>	<u>235,719</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In prior periods, the Group had its online and social business carried out by Polluquin Holdings Limited and its subsidiaries (collectively referred to as the “Polluquin Group”), non-wholly owned by the Group. The operation for online and social business was discontinued with effect from 17 September 2020. Accordingly, the results of the Polluquin Group’s operation for the period ended 16 September 2020 and 30 September 2019 have been separately presented as a discontinued operation in the condensed consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 March 2020, the catering business carried out by Sai Van Club Management Services Co. Ltd (“Sai Van Club”), a wholly owned subsidiary of the Group, was discontinued with effect from 10 March 2020. Accordingly, the results of the subsidiary’s operation for the six months ended 30 September 2019 have been separately presented as a discontinued operation in the condensed consolidated statement of profit or loss and other comprehensive income. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the catering business as a discontinued operation.

Details of the above discontinued operations are set out in Note 16.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on these condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 March 2021.

2.2 Accounting policies newly applied by the Group

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivables. Such grants are presented under “other income”.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. REVENUE

Continuing operations

Disaggregation of revenue from contracts with customers

For the six months ended 30 September 2020

	Publishing and intellectual properties licensing HK\$'000 (unaudited)	Digital marketing HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Time of revenue recognised:			
At a point in time			
— Comic book sales	1,844	—	1,844
— Royalty income from intellectual properties licensing	2,021	—	2,021
— New media advertising revenue	—	66,023	66,023
Over time			
— Social media marketing	—	9,688	9,688
Total	<u>3,865</u>	<u>75,711</u>	<u>79,576</u>
Principal	3,865	75,294	79,159
Agent	—	417	417
Total	<u>3,865</u>	<u>75,711</u>	<u>79,576</u>
Geographical markets:			
Hong Kong (place of domicile)	3,865	—	3,865
The People's Republic of China (the "PRC")	—	75,711	75,711
Total	<u>3,865</u>	<u>75,711</u>	<u>79,576</u>

For the six months ended 30 September 2019 (restated)

	Publishing and intellectual properties licensing <i>HK\$'000</i> (unaudited)	Digital marketing <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Time of revenue recognised:			
At a point in time			
— Comic books sales	2,196	—	2,196
— Royalty income from intellectual properties licensing	1,821	—	1,821
— New media advertising revenue	—	15,639	15,639
— Intellectual properties digitalisation for production	—	9,432	9,432
Over time			
— Social media marketing	—	5,189	5,189
Total	<u>4,017</u>	<u>30,260</u>	<u>34,277</u>
Principal	4,017	29,816	33,833
Agent	—	444	444
Total	<u>4,017</u>	<u>30,260</u>	<u>34,277</u>
Geographical markets:			
Hong Kong (place of domicile)	4,017	—	4,017
The PRC	—	30,260	30,260
Total	<u>4,017</u>	<u>30,260</u>	<u>34,277</u>

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the Group's chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments for continuing operations under HKFRS 8 *Operating Segments* are as follows:

- Publishing and intellectual properties licensing: publication of comic books and royalty income from licensing intellectual properties of comics.
- Digital marketing: providing digital marketing and communication, intellectual property digitalisation and agency of intellectual property services in the PRC.
- Retailing and wholesales: retailing of wine in Hong Kong.

Operations in online and social business and catering services were disposed on 17 September 2020 and 9 March 2020, respectively (as detailed in Note 1). Prior period segment disclosures have been re-presented.

Segment revenue and results

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

For the six months ended 30 September 2020 (unaudited)

Continuing operations

	Publishing and intellectual properties licensing HK\$'000	Digital marketing HK\$'000	Retailing and wholesales HK\$'000 (Note)	Consolidated HK\$'000
Revenue				
External sales	<u>3,865</u>	<u>75,711</u>	<u>—</u>	<u>79,576</u>
Segments results from continuing operations	<u>890</u>	<u>(15,073)</u>	<u>(238)</u>	(14,421)
Unallocated expenses				(10,231)
Unallocated income				416
Other losses				<u>(293)</u>
Group's loss before tax from continuing operations				<u>(24,529)</u>

Note: Premium wines with a carrying amount of HK\$34,908,181 (31 March 2020: HK\$34,908,181) were held by the Group as at 30 September 2020. During the period ended 30 September 2020, the Group markets the premium wines in more distribution channels including online platform and wine dealer.

For the six months ended 30 September 2019 (unaudited) (restated)

Continuing operations

	Publishing and intellectual properties licensing HK\$ '000	Digital marketing HK\$ '000	Retailing and wholesales HK\$ '000	Consolidated HK\$ '000
Revenue				
External sales	<u>4,017</u>	<u>30,260</u>	<u>—</u>	<u>34,277</u>
Segment results	<u>(398)</u>	<u>(2,786)</u>	<u>(222)</u>	(3,406)
Unallocated expenses				(9,379)
Unallocated income				1,143
Other losses				<u>(5,198)</u>
Group's loss before tax from continuing operations				<u>(16,840)</u>

Segment result represents the loss before tax incurred by each segment without the allocation of certain other income, loss on disposal of subsidiaries, loss on fair value change of financial assets at fair value through profit or loss ("FVTPL"), share of loss of an associate and unallocated corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

As the Group's assets and liabilities are only reviewed by the CODM as a whole and hence no analysis of the Group's assets and liabilities by operating segments is disclosed.

5. OTHER INCOME

Continuing operations

For the six months ended 30 September 2020, other income mainly included bank interest income of HK\$203,000 (six months ended 30 September 2019: HK\$1,475,000) and government grants of HK\$842,000 (six months ended 30 September 2019: Nil) in respect of Covid-19-related subsidies under Employment Support Scheme provided by the Hong Kong government.

6. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited) (restated)
Continuing operations		
Loss on fair value change of financial assets at FVTPL	(297)	(4,227)
Net foreign exchange loss	(45)	(930)
Loss on disposal of subsidiaries	—	(41)
	<u> </u>	<u> </u>
	(342)	(5,198)
	<u><u> </u></u>	<u><u> </u></u>

7. FINANCE COSTS

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited) (restated)
Continuing operations		
Interests on bank borrowings	345	—
Interests on lease liabilities	200	96
Interests on advances from independent third parties	680	—
	<u> </u>	<u> </u>
	1,225	96
	<u><u> </u></u>	<u><u> </u></u>

8. LOSS BEFORE TAX

Continuing operations

Loss for the period has been arrived at after charging the following items:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Audit fee	1,223	1,022
Amortisation of intangible assets	862	353
Amortisation of film right (included in cost of sales)	—	117
Staff costs, including directors' emoluments	24,158	12,153
Depreciation of right-of-use assets	3,107	2,359
Depreciation of property, plant and equipment	269	198
Consultancy and other professional fee (included in other expenses)		
<i>(Note)</i>	3,141	621
Research cost (included in other expenses)	5,399	1,024

Note: The amounts represent fees paid to consultants providing professional advices on business operations and presented under “Other expenses”.

9. INCOME TAX CREDIT

Continuing operations

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda for both periods.

Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for both periods. Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Income tax credit comprises:		
Deferred tax		
— Deferred tax credit	129	25
Income tax credit	129	25

10. DIVIDEND

No dividend was paid, declared or proposed during both interim periods. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

11. LOSS PER SHARE

From continuing operations

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(19,783)	(12,974)
Less: Loss for the period from discontinued operations	302	574
Loss for the purpose of basic loss per share from continuing operations	<u>(19,481)</u>	<u>(12,400)</u>
Number of shares	'000	'000
Number of shares for the purposes of basic loss per share	<u>1,390,657</u>	<u>1,390,657</u>

From continuing and discontinued operations

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>(19,783)</u>	<u>(12,974)</u>

The denominators used are the same as those detailed above for the basic loss per share.

From discontinued operations

For the six months ended 30 September 2020, basic loss per share for the discontinued operations is HK0.02 (2019: HK0.04) cent per share, based on the loss for the period of HK\$302,000 (2019: HK\$574,000) from the discontinued operations and the denominator used is the same as those detailed above for basic loss per share.

No diluted loss per share has been presented as there was no potential ordinary shares in issue for both periods.

12. GOODWILL

For the purpose of impairment assessment, goodwill is allocated to two individual cash generating units (“CGUs”), each comprising a subsidiary, namely Eqmen Technology Limited* (北京易奇門科技有限公司) (“Eqmen”) and Hyperchannel Info Tech., Ltd* (北京匯傳網絡信息科技有限公司) (“Hyperchannel Info”), both subsidiaries are in digital marketing segment. An individual cash generating unit (“CGU”) is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs of disposal. During the six months ended 30 September 2020, no impairment loss has been recognised in respect of Hyperchannel Info in profit or loss.

Eqmen

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projection based on financial budgets approved by management covering a five-year period, and the pre-tax discount rate of 25.44% (31 March 2020: 25.41%), applied by an independent professional valuer, Valor Appraisal & Advisory Limited (the “Valuer”). The cash flow of this CGU beyond the five-year period is extrapolated using a 2% (31 March 2020: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows include budgeted sales, gross margin and related cash inflow and outflow patterns. The estimation is based on the unit’s past performance and management’s expectations for the market development.

During the six months ended 30 September 2020, there is decline in financial performance of Eqmen for the period due to the unsatisfactory operating result. The directors of the Company have consequently revised the cash flow projection based on the latest financial budgets approved by management and therefore determined impairment of goodwill amounted to HK\$2,494,000 (six months period ended 30 September 2019: Nil). No impairment on other assets of Eqmen is considered necessary.

If discount rate increased to 27.44%, individually with all other parameters remain constant, the recoverable amount would reduce by approximately HK\$1,825,000 and further impairment of goodwill with the same amount will be made.

The carrying amount of goodwill (net of accumulated impairment loss) as at 30 September 2020 allocated to Eqmen and Hyperchannel Info are HK\$7,622,000 (31 March 2020: HK\$9,733,000) and HK\$2,494,000 (31 March 2020: HK\$2,393,000), respectively.

* *English name is for identification purpose only.*

13. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

The Group allows the general credit period of ranges from 0 to 90 days to customers of publishing and intellectual properties licensing, retailing and wholesales and digital marketing segments. The following is the aged analysis of trade receivables net of allowance for credit losses presented based on the date of billing at the end of reporting period.

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
0 — 60 days	24,144	13,958
61 — 90 days	4,101	5,526
91 — 180 days	1,093	3,542
Over 180 days	—	102
	<u>29,338</u>	<u>23,128</u>

Trade receivables are interest-free and unsecured.

As of 30 September 2020, included in trade receivables is amount due from an associate with amount of HK\$401,000 (31 March 2020: Nil).

(b) Other receivables, deposits and prepayments

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
Other receivables	5,430	11,457
Less: allowance of credit loss	<u>(593)</u>	<u>(395)</u>
	4,837	11,062
Deposits and prepayments (<i>Note</i>)	<u>17,907</u>	<u>13,859</u>
Total other receivables, deposits and prepayments	22,744	24,921
Less: Amounts that will be settled or utilised within one year	<u>(21,459)</u>	<u>(24,813)</u>
Amount that will be utilised for more than one year	<u>1,285</u>	<u>108</u>

Note: As of 30 September 2020, the amounts mainly comprised of prepayments of approximately HK\$12,402,000 (31 March 2020: HK\$7,911,000) made to media suppliers under digital marketing business.

14. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting period.

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
0 — 60 days	5,016	5,944
61 — 90 days	1,394	216
Over 90 days	551	76
	<u>6,961</u>	<u>6,236</u>

The average credit period on purchases of goods ranges from 15 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15. RESTRICTED BANK DEPOSIT/CONTINGENT LIABILITY

A subsidiary of the Group, Hyperchannel Info (the “Subsidiary”), is a defendant in a legal action involving the alleged failure of the Subsidiary to provide services in accordance with the terms of contract. The customer filed a lawsuit in People’s Court of Nanshan District of Shenzhen (the “Court”) in the current interim period against the Subsidiary to terminate the signed contract and demand repayment amounting to RMB4,500,000 (approximately HK\$5,115,000). The customer has also requested the Court to restrict the Subsidiary’s bank balance amounted to RMB4,500,000 (approximately HK\$5,115,000). In accordance with the order of seal up, distraint and freeze properties issued by the Court, the restricted bank deposit will be expired on 12 August 2021 and therefore such deposit is classified as current asset accordingly.

The Subsidiary is in the process of defending the action and based on legal advice obtained, the directors of the Company are of the view that no material losses will arise in respect of the legal claim at the date of these condensed consolidated financial statements as it is not probable that the contingent liability of RMB4,500,000 (approximately HK\$5,115,000) will materialise.

16. DISPOSAL OF SUBSIDIARIES (DISCONTINUED OPERATIONS)

	Six months ended 30 September 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (restated)
Loss for the period	(168)	(579)
Loss on disposal	<u>(206)</u>	<u>—</u>
	<u>(374)</u>	<u>(579)</u>

Disposal of Polluquin Group

During the current interim period, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in Polluquin Group (as defined in Note 1) that carried out all of the Group's online and social business for a total cash consideration of HK\$154,000. The purpose of the disposal is to streamline its operations. The disposal was completed on 17 September 2020, on which date the Group lost control of Polluquin Group. The Group's online and social business operation is treated as discontinued operation.

The (loss) profit from the discontinued operation is set out below. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the online and social business as a discontinued operation.

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period	(168)	407
Loss on disposal of Polluquin Group	(206)	—
	<u>(374)</u>	<u>407</u>

The results of Polluquin Group for the current and preceding interim periods were as follows:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue arising from contracts with customers	63	539
Other income	67	854
Selling expenses	—	(105)
Administrative expenses	(298)	(881)
	<u>(168)</u>	<u>407</u>
(Loss) profit before tax	(168)	407
Income tax expense	—	—
	<u>(168)</u>	<u>407</u>

The net assets of Polluquin Group at the date of disposal were as follows:

HK\$ '000
(unaudited)

Analysis of assets and liabilities over which control was lost:

Other receivables	1,021
Bank balances and cash	271
Trade payables, other payables and accrued charges	(865)

Net assets disposed of	427
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Loss on disposal of Polluquin Group:

Consideration receivable	154
Net assets disposed of	(427)
Non-controlling interests	192
Reclassification of cumulative translation reserve upon disposal of Polluquin Group to profit or loss	(125)

Loss on disposal	(206)
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Deferred cash consideration (<i>Note</i>)	154
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Net cash outflow arising on disposal:

Bank balances and cash disposed of	(271)
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Note: The consideration has been subsequently settled by the independent third party on 9 October 2020.

Disposal of Sai Van Club

On 9 March 2020, the Group entered into an agreement to dispose of the entire equity interest of its wholly owned subsidiary, Sai Van Club, to an independent third party for a total cash consideration of HK\$600,000. The transaction was completed on 9 March 2020.

The loss from the discontinued operation is set out below.

Six months
ended
30 September
2019
HK\$ '000
(unaudited)

Revenue	1,366
Cost of sales	(423)
Selling expenses	(2)
Administrative expenses	(1,927)

Loss for the period	(986)
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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group's consolidated net loss attributable to the owners of the Company during the six months ended 30 September 2020 is HK\$19,783,000 (30 September 2019: loss of HK\$12,974,000), increased by 52.5% or the loss per share at HK1.4 cents as of 30 September 2020 (30 September 2019: HK0.9 cents per share).

The analysis of condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 September 2020 is as follows:

1. Revenue

For the six months ended 30 September 2020, the Group's overall revenue from continuing operations increased by approximately 132.2% to HK\$79,576,000 of which approximately HK\$3,865,000 and HK\$75,711,000 (30 September 2019: HK\$4,017,000 and HK\$30,260,000) were attributable to our business of publishing and intellectual properties ("IPs") licensing and digital marketing respectively.

The revenue for the business of publishing and IPs licensing, decreased by approximately 3.8%. There was an increase of revenue in IPs licensing which is offset by a drop in revenue from publication of comic book during the interim period.

The revenue from the digital marketing business significantly increased from HK\$30,260,000 to HK\$75,711,000 for the six months ended 30 September 2020. It was mainly due to the Group's continuous efforts of investing in the digital marketing business.

2. Gross profit and gross profit margins

The Group recorded a gross profit of approximately HK\$20,908,000 with gross profit margin of 26.3% for the six months ended 30 September 2020 as compared to the same period of 2019, which recorded a gross profit of HK\$9,353,000 with a gross profit margin of 27.3%, restated.

3. Selling expenses

The selling expenses from continuing operations increased from approximately HK\$3,532,000 for the six months ended 30 September 2019 to approximately HK\$13,746,000 for the six months ended 30 September 2020. An increase of almost threefold was mainly due to the Group's increasing investment in the digital marketing business during the interim period.

4. Administrative expenses

The Group recorded an aggregate administrative expenses from continuing operations of approximately HK\$19,878,000 for the six months ended 30 September 2020 (2019: HK\$17,471,000, restated).

The major expenses components for the six months ended 30 September 2020 were staff cost of HK\$10,999,000 (2019: HK\$9,275,000, restated), audit fee of HK\$1,223,000 (2019: HK\$1,022,000), depreciation of right-of-use assets HK\$3,107,000 (2019: HK\$2,359,000), listing and corporate services fee of HK\$284,000 (2019: HK\$312,000), and operating lease rentals in respect of rental premises of HK\$493,000 (2019: HK\$1,013,000).

The increase in administrative expenses from continuing operations was mainly due to the expansion of the digital marketing business.

5. Other expenses

The other expenses from continuing operations recorded the research cost of HK\$5,399,000 (2019: HK\$1,024,000) for development the platform of digital marketing and the consultancy and other professional fee of HK\$3,141,000 (2019: HK\$621,000) paid to consultants providing professional advices and business operations and development.

6. Loss for the period

The Group recorded a loss from continuing operations of approximately HK\$24,400,000 for the six months ended 30 September 2020 (2019: HK\$16,815,000, restated) and a loss from discontinued operations of approximately HK\$374,000 for the six months ended 30 September 2020 (2019: HK\$579,000).

Also, as at 30 September 2020, the Group has net asset of approximately HK\$214,450,000 (31 March 2020: HK\$235,719,000). Net asset value per share of HK\$0.15 (31 March 2020: HK\$0.17).

DISPOSAL OF SUBSIDIARIES

During the current interim period, the Group entered into an agreement to dispose of the entire equity interest in Polluquin Holdings Limited and its subsidiaries to an independent third party for a total cash consideration of HK\$154,000. The transaction of disposing the business of digital cinema was completed on 17 September 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 September 2020, the Group had bank balances with financial institutions in aggregate of approximately HK\$118,140,000, pledged bank deposit of approximately HK\$23,298,000, restricted bank deposit of HK\$5,115,000 and financial assets at fair value through profit or loss of approximately HK\$4,385,000.

As of 30 September 2020, the Group had bank borrowings of approximately HK\$15,915,000 and it was secured by a pledged bank deposit for granting banking facility to the Group. Save as above, no other assets of the Group has been pledged as of 30 September 2020.

The Group has no significant exposure to foreign exchange rate fluctuation except for the currency of RMB.

As of 30 September 2020, the Group had a net current asset of approximately HK\$184,004,000 (31 March 2020: HK\$213,834,000) and a current ratio of 4.6 (31 March 2020: 5.4). The Group's total liabilities as of 30 September 2020 amounted to approximately HK\$54,730,000 (31 March 2020: HK\$50,828,000) and represented approximately 27.4% (31 March 2020: 23.0%) to equity attributable to owners of the Company.

Upon consideration of the above, the Directors have no doubt that the Group will have sufficient liquidity to finance its daily operations, as reflected by its healthy financial status with a wealth of cash flow and other resources. As always, the Group will continue to follow prudent and disciplined cash management practices on any excess liquidity.

EMPLOYMENT AND REMUNERATION POLICIES

As of 30 September 2020, the Group had a total of 238 employees of which 30 are based in Hong Kong and 208 in the PRC. Total staff costs from continuing operations incurred for the six months ended 30 September 2020 amounted to approximately HK\$24,158,000 (30 September 2019: HK\$12,153,000 restated). Remuneration packages are maintained at competitive levels and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of 30 September 2020, the Group did not have any significant capital commitment. (31 March 2020: Nil).

Save as disclosed in note 15 to the condensed consolidated interim financial statements, the Group did not have any other significant contingent liabilities as at 30 September 2020.

BUSINESS REVIEW

During the interim period ended September 30, 2020, the Group achieved significant growth of its core IP related business and digital marketing (“Digital Marketing”). The Group will continue to build and strengthen its marketing and technical team to serve its customers and expand on the scope of services, including the development and management of Multi-channel Networks (MCNs). Digital Marketing is emerging as the leading core business of the Group as its growth is exponential and its potential is promising. Revenue of Digital Marketing during the interim period ended September 30, 2020 is HK\$75.7 million as compared to the corresponding period of 2019 of HK\$30.3 million. Overall, total revenue increased significantly to HK\$79.6 million in 2020 comparing to HK\$34.3 million in 2019.

Eqmen, a 55% owned subsidiary which is principally engaged in the digitalisation and commercialisation of IPs, content creation and digital marketing, continues to expand in collaborating with certain prominent IPs owners, including the Palace Museum* (故宮博物院) and the National Copyright Administration of the PRC (國家版權局) under the “IP Express” (IP直通車) arrangement. These collaborations allow Eqmen and assist the IP owners to explore and expand the usage of their IPs to bring in extra revenue and raising the market recognition of their IPs. However, during the interim period, because of slow down of business activities due to the Covid-19 pandemic, particularly in hosting events and gifts, revenue has decreased significantly from HK\$20.6 million in 2019 to HK\$9.4 million in 2020, while gross profit margin increased from 17.3% to 38.3% as the company focused on services with higher profit margin.

The Group has two Beijing companies specialized in applying big data analysis in matching IPs to assist customers in marketing products or services. Beijing Skyvior Technology Co. Ltd (“Beijing Skyvior”) is a wholly-owned subsidiary after the Group acquired the remaining 45% in September 2019. In November 2019, Beijing Skyvior acquired 100% equity interest of Hyperchannel Info from an independent third party for a consideration of 45% equity interest of Beijing Skyvior held by the Group. After the acquisition, the Group has a 55% of equity interest in Beijing Skyvior and Hyperchannel Info. These acquisitions allow the Group to strengthen access to already strong and renowned clientele and in establishing a leading presence in the new media and digital marketing industries in the PRC.

Digital Marketing continues to grow rapidly as the Group continues to invest in building on a strong marketing and technical team to capture the vibrant Digital Marketing business. The revenue generated by Digital Marketing, including Eqmen, is HK\$75.7 million for the six months ended 30 September 2020 comparing to the same period of HK\$30.3 million in 2019. The number of employees employed in Digital Marketing increased from 47 to 208 during the twelve-month period ended September.

The significant increase in expenses reflects the Group's commitment to developing the Digital Marketing business. A significant portion of employee costs are related to the development of systems and programs to facilitate the marketing and monitoring of business activities. The Group took a conservative approach of charging such expenses to profit and loss.

Publishing and IP Licensing Business

The Publishing and IP licensing business is rather static. To strengthen the control on collectability of accounts receivable, the Group is collaborating directly with the printing houses. The Group continues to put more effort in broadening the scope of licensing business and enticing customers to encompass the use of digital images.

Retail and Wholesales Business

The Group continues to work with a consultant to develop sales and distribution channels for its premium wines. During this interim period, the Group is marketing the premium wines in more distribution channels including online platform and wine dealer.

PROSPECT

During this interim period, the Group has developed a strong and sustainable Digital Marketing business with a strong marketing and technical team of over 200 professionals. Digital Marketing is now the Group's leading core segment. With the covid-19 pandemic receding and under control, the second half of the fiscal year is expecting to recover with increased business activities.

The Group has incurred significant increase in expenses during this interim period, in particular in the cost of manpower and research and development expenses. The Group is committing to build a strong foundation in pushing forth and becoming a prominent key player in the Digital Marketing and IPs commercialization markets. The Group is cautious in controlling its costs and expenses as the business environment is getting more volatile and competitions are more severe.

While the emphasis may still be on revenue growth, the Group is also focusing more on providing better and broader services to customers and improving profit margins. The Group is confident it has built a base for achieving a turn-around. As stated before, the Group will continue to invest in IPs related business and continue to enhance the Company's value through our growing businesses.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold and redeemed any of the listed securities in the Company during the six months ended 30 September 2020.

AUDIT COMMITTEE

The Audit Committee of the Company, with written terms of reference in line with the code provision set out in the Code on Corporate Governance Practices (the “Code”) as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), currently comprises of three independent Non-executive Directors, namely Mr. Wong Kwan Kit, Mr. Fan Chun Wah Andrew and Mr. Mung Yat Lik. The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control, risk management and financial reporting matters including the review of unaudited interim results for the six months ended 30 September 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules throughout the period ended 30 September 2020 except for the following deviations:

Code Provision A.4.1

Under the code provision A.4.1, Non-executive Directors should be appointed for a specific term, subject to re-election. The current independent Non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including Executive and Non-executive) of the Company are subject to retirement by rotation at the Annual General Meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

Code Provision E.1.2

Under the code provision E.1.2, the Chairman of the Board should attend the annual general meeting. The position of the Chairman of the Board was not filled before the Company’s annual general meeting held on 18 August 2020. However, an Executive Director, present at the annual general meeting took the chair of that meeting in accordance with the Bye-Laws of the Company.

The Company will arrange for the election of the new Chairman of the Board as soon as practicable in order to fill up the vacancy of Chairman.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the “Model Code”). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 September 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.culturecom.com.hk. The interim report will be dispatched to the shareholders of the Company and will be published on the above websites in due course.

By Order of the Board
Culturecom Holdings Limited
Huang Mingguo

Executive Director and Chief Executive Officer

Hong Kong, 27 November 2020

As at the date of this announcement, the Board comprises of Ms. Chow Lai Wah Livia (being Vice Chairman and Executive Director); Mr. Huang Mingguo, Mr. Kwan Kin Chung and Mr. Yuen Kin (all being Executive Directors); Mr. Wong Kwan Kit, Mr. Fan Chun Wah Andrew and Mung Yat Lik (all being independent Non-executive Directors).

** for identification purposes only*