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If you have sold or transferred all your shares in **China Digital Culture (Group) Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**(1) SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser to the Company



A letter from the Board is set out on pages 4 to 17 of this circular. A notice convening the SGM to be held at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Friday, 31 March 2017 at 5:00 p.m. is set out on pages 18 to 19 of this circular.

Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) or upon the poll concerned should you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.

13 March 2017

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Notice of SGM	18

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“Business Day”	a day (excluding Saturday, Sunday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted) on which licensed banks in Hong Kong are generally open for business
“Company”	China Digital Culture (Group) Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on GEM
“Completion”	completion of the Subscription in accordance with the terms and conditions precedent of the Subscription Agreement
“Completion Date”	the date of Completion, which is within 5 Business Days from the day on which after the fulfillment, or as the case may be, waiver of the Conditions Precedent or such other date as the Subscriber and the Company may agree in writing
“Conditions Precedent”	the conditions precedent of the Subscription Agreement, details of which are set out in the subsection headed “Conditions Precedent” in this circular
“Conversion Price”	HK\$0.55 per Conversion Share (subject to adjustments)
“Conversion Share(s)”	Up to 750,000,000 new Share(s) to be allotted and issued by the Company to the Bondholders upon the exercise of the Conversion Rights attaching to the Convertible Bonds at the initial Conversion Price

DEFINITIONS

“Convertible Bonds”	The 5.5% interest bearing convertible bonds in an aggregated principal amount of HK\$412,500,000 to be issued by the Company under the Specific Mandate to the Subscriber pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the GEM Listing Rules)
“Last Trading Day”	8 February 2017, the date of the Subscription Agreement
“Latest Practicable Date”	8 March 2017, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Long Stop Date”	30 June 2017, or such later date as the Company and the Subscriber may mutually agree in writing
“PRC”	the People’s Republic of China, for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder including among other things, the allotment and issue of the Conversion Shares under the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$0.04 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“Specific Mandate”	the specific mandate sought to be granted to the Directors by the Shareholders at the SGM for the allotment and issue of up to a maximum of 750,000,000 Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Hangzhou Liaison Interactive Information Technology Co., Limited* (杭州聯絡互動信息科技股份有限公司), a company incorporated in the PRC with limited liability, the shares of which are listed on Shenzhen Stock Exchange (stock code: 002280.SZ)
“Subscription”	the subscription of the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 8 February 2017 and entered into between the Company and the Subscriber in respect of the Subscription
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“%”	per cent

This circular has been printed in English and Chinese. In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.

* For identification purpose only



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)

Executive Directors:

Mr. Hsu Tung Sheng (*Chairman*)

Mr. Hsu Tung Chi

Mr. Chang Ching Lien

Ms. Zhang Jing

Mr. Lai Kwok Fai, Franki

Registered Office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Independent Non-executive Directors:

Mr. Kwok Chi Sun, Vincent

Mr. Wong Tak Shing

Mr. Gou Yanlin

Head Office and Principal Place of

business in Hong Kong:

Room 2801A, Tower 1

Lippo Centre

89 Queensway

Hong Kong

13 March 2017

To the Shareholders,

Dear Sir or Madam,

**(1) SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 9 February 2017 in relation to the Subscription. On 8 February 2017 (after trading hours), the Company entered into a Subscription Agreement with the Subscriber pursuant to which the Subscriber have conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds with an aggregate principal amount of HK\$412,500,000.

The Conversion Shares which fall to be allotted and issued upon the exercise of the Conversion Rights attaching to the Convertible Bonds will be allotted and issued under the Specific Mandate sought to be granted to the Directors by the Shareholders at the SGM.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreement; (ii) details of the allotment and issue of the Conversion Shares under the Specific Mandate; and (iii) a notice convening the SGM.

THE SUBSCRIPTION AGREEMENT

Date : 8 February 2017 (after trading hours)

Parties :

Issuer : The Company

Subscriber : Hangzhou Liaison Interactive Information Technology Co., Limited*
(杭州聯絡互動信息科技股份有限公司)

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are Independent Third Parties.

The Convertible Bonds carry the right to convert into Conversion Shares at the initial Conversion Price of HK\$0.55 per Conversion Share (subject to adjustments).

Assuming the Conversion Rights attaching to the Convertible Bonds are exercised in full at the Conversion Price of HK\$0.55 per Conversion Share, 750,000,000 Conversion Shares will fall to be allotted and issued to the Bondholders, representing approximately 39.73% of the existing issued share capital of the Company of 1,887,526,114 Shares as at the Latest Practicable Date and approximately 28.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (subject to Conversion Restrictions as further detailed in the subsection headed "Principal Terms of the Convertible Bonds").

Principal Terms of the Convertible Bonds

The principal terms of the Convertible Bonds are arrived at after arm's length negotiations between the Company and the Subscriber and are summarized as follows:

Principal Amount: HK\$412,500,000

Maturity Date: 5th anniversary of the date of issue of the Convertible Bonds (or if that is not a Business Day, the first Business Day thereafter)

Interest: 5.5% per annum, payable on annual basis

Conversion Price: the initial Conversion Price is HK\$0.55 per Conversion Share, subject to adjustments in accordance with the terms and conditions of the Convertible Bonds.

* For identification purpose only

LETTER FROM THE BOARD

**Adjustment to
Conversion Price:**

The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of the following events:

- (i). an alternation of the nominal amount of the Shares by reason of any consolidation, sub-division;
- (ii). an issue of Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), other than in lieu of a cash dividend;
- (iii). a capital distribution (as defined in the conditions of the Convertible Bonds) or the rights to acquire for cash assets of the Company or any of its subsidiaries to Shareholders being made/granted by the Company;
- (iv). a right issue of Shares to Shareholders, or a grant to Shareholders any options or warrants to subscribe for Shares, in each case at less than 80% of the market price of the Shares, unless a like offer or grant (as the case may be) being made/granted by the Company to the Bondholder(s) at the same time as if he/she/it had exercised the Conversion Rights attaching to the Convertible Bonds in full on the day immediately preceding the record date for such offer or grant;
- (v). an issue wholly for cash by the Company of securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, at a consideration per Share which is less than 80% of the market price of the Shares, or the conversion, exchange or subscription rights of any such securities (other than in accordance with the terms applicable thereto) are modified so that the consideration per Share is less than 80% of the market price of the Shares;

LETTER FROM THE BOARD

- (vi). an issue of Shares being made wholly for cash at a price less than 80% of the market price of the Share;
- (vii). an issue of Shares for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price of the Shares; and

Notwithstanding the specific adjustment events set out above, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the relevant provisions set out in the terms of the Convertible Bonds should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the such relevant provisions set out in the terms of the Convertible Bonds or that such adjustment should take effect on a different date or with a different time from that provided for under such relevant provisions, the Company may appoint its auditors or an independent merchant bank to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such auditors of the Company or independent merchant bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from such other date and/or time as shall be certified by such auditors of the Company or independent merchant bank to be in its opinion appropriate.

Whenever the Conversion Price is adjusted, the Company shall give prompt notice of the same to the Bondholders (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).

LETTER FROM THE BOARD

- Conversion Shares:**
1. Based on the initial Conversion Price of HK\$0.55, a maximum number of 750,000,000 Conversion Shares will be allotted and issued upon exercise in full of the Conversion Rights attaching to the Convertible Bonds.
 2. The Conversion Shares upon exercise of the Conversion Rights attaching to Convertible Bonds shall be allotted and issued under the Specific Mandate sought to be granted to the Directors by the Shareholders at the SGM.
- Conversion Right(s):**
1. Each holder of Convertible Bonds shall have the right, exercisable during the Conversion Period to convert the whole or any part (in multiples of HK\$1,000,000 unless the amount remaining on exercise of the Convertible Bonds or in consequence of any adjustment shall be less than HK\$1,000,000) of the outstanding principal amount of Convertible Bonds held by such Bondholder(s) into such number of Conversion Shares as will be determined by dividing the principal amount of Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion.
 2. No fraction of a Share shall be issued on conversion of the Convertible Bonds and no cash adjustments will be made.
- Conversion Restriction(s):**
1. Any conversion of Convertible Bonds shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of such Convertible Bonds is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of such Convertible Bonds may be converted.
 2. Upon exercise of the Conversion Rights, the Bondholders and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code.
 3. Upon exercise of the Conversion Rights, a reverse takeover as defined under the GEM Listing Rules will not be triggered.
 4. Upon exercise of the Conversion Rights, the public float of the Company will not be unable to meet the relevant requirements under the GEM Listing Rules.

LETTER FROM THE BOARD

Conversion Period: The period commencing from 31 October 2017 and ending on the day which falls on the 5th anniversary of the date of issue of Convertible Bonds (the “**Conversion Period**”).

Early Redemption: The Company may, by giving not less than 5 Business Days notice to the Bondholder(s), to redeem all or part of the outstanding Convertible Bonds at an amount equal to 105% of the principal amount of the said outstanding Convertible Bonds at any time from the date of issue of Convertible Bonds.

Conversion Milestones: Subject to the Conversion Restrictions and during the Conversion Period, the Company shall be entitled to, at its discretion, request the Bondholder(s) to convert the Convertible Bonds into Shares upon the occurrence of the following events (the “**Conversion Milestones**”) to the audited net profit (audited by the third party mutually agreed by the Company and the Bondholder(s)) (the “**Audited Net Profit**”) of the Company:

Scenarios	Audited Net Profit for the year	Percentage of principal amount of the Convertible Bonds that the Company could request the Bondholder(s) to convert into Shares	Latest date for the Company to request the Bondholder(s) to convert the relevant percentage of the Convertible Bonds (on or before)
1	Audited Net Profit for the financial year ended 31 December 2016 (“ FY2016 ”) is greater than HK\$60,000,000;	25%	30 November 2017
2	Audited Net Profit for the financial year ended 31 December 2017 (“ FY2017 ”) is greater than HK\$100,000,000;	35%	30 April 2018
3	Audited Net Profit for FY2016 is less than HK\$60,000,000, but the Aggregated Audited Net Profit for FY2016 and FY2017 is greater than HK\$160,000,000;	60%	30 April 2018

LETTER FROM THE BOARD

Scenarios	Audited Net Profit for the year	Percentage of principal amount of the Convertible Bonds that the Company could request the Bondholder(s) to convert into Shares	Latest date for the Company to request the Bondholder(s) to convert the relevant percentage of the Convertible Bonds (on or before)
4	Audited Net Profit for the financial year ended 31 December 2018 ("FY2018") is greater than HK\$150,000,000;	40%	30 April 2019
5	Audited Net Profit for FY2017 is less than HK\$100,000,000, but the Aggregated Audited Net Profit for FY2017 and FY2018 is greater than HK\$250,000,000;	75%	30 April 2019
6	Audited Net Profit for FY2016 is less than HK\$60,000,000, and less than HK\$100,000,000 for FY2017, but the Aggregated Audited Net Profit for FY2016, FY2017 and FY2018 is greater than HK\$310,000,000;	100%	30 April 2019

The re-valuation of the Convertible Bonds by the end of each reporting period will have an impact on the profit or loss of the Group's financial accounts. By requesting the Bondholder(s) to convert the Convertible Bonds upon meeting the Conversion Milestones, the Group may eliminate the uncertainty of the profit or loss of the Group as a result of the fluctuation of the re-valuation of the Convertible Bonds.

If the Company could achieve the relevant Conversion Milestones in the respective financial years, the Company could, at its discretion, request the Subscriber to convert the Convertible Bonds into Shares, such that the Group can reduce the interest cost arising from the Convertible Bonds thereby improving the financial results of the Group in the respective financial years.

LETTER FROM THE BOARD

Having considered the above, the Company is of the view that the Conversion Milestones are beneficial to the Shareholders.

- Ranking:** Conversion Shares to be allotted and issued upon exercise of the Conversion Rights attaching to Convertible Bonds shall rank *pari passu* in all respects among themselves and with all other existing Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.
- Transferability:** Any transfer of Convertible Bonds shall be in respect of the whole or any part (in multiples of HK\$1,000,000 unless the amount remaining on exercise of the Convertible Bonds or in consequence of any adjustment shall be less than HK\$1,000,000) of the principal amount of Convertible Bonds.
- Application for listing:** No application will be made by the Company to the Stock Exchange for listing of Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.
- Notice of conversion by other Bondholders:** The Company may notify the Bondholder(s) about the conversion of the convertible bonds of the Company by other Bondholders within 7 Business Days from the date of receipt of the relevant conversion notice.

Conversion Price:

The initial Conversion Price of HK\$0.55 per Conversion Share represents:

1. a premium of approximately 25.00% over the closing price of approximately HK\$0.44 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
2. a premium of approximately 34.15% over the closing price of approximately HK\$0.41 per Share as quoted on the Stock Exchange on the Last Trading Day;
3. a premium of approximately 29.41% over the average closing price of approximately HK\$0.425 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the Last Trading Day;
4. a premium of approximately 29.11% over the average closing price of approximately HK\$0.426 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to the Last Trading Day; and

LETTER FROM THE BOARD

5. a premium of approximately 47.1% over the adjusted net asset value of approximately HK\$0.374 per Share, based on (i) the consolidated net asset value of the Company of approximately HK\$741,074,000 as at 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016; and (ii) the number of Shares in issue as at the Latest Practicable Date.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market prices of the Shares as shown above. The Directors consider the Conversion Price and the terms and conditions of the Subscription Agreement are fair and reasonable based on the current market conditions and in the interests of the Company and Shareholders as a whole.

Conditions precedent

The Subscription Agreement is conditional upon the following conditions being fulfilled (or waived) on or before the Long Stop Date (or such later time and date as the Company and the Subscriber shall agree in writing):

1. no takeover implication or obligation having been triggered under the Takeovers Code;
2. no "reverse takeover" (as defined under the GEM Listing Rules) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;
3. no breach of public float requirement under the GEM Listing Rules;
4. compliance of all applicable disclosure and/or shareholders' approval requirements by the Company in accordance with the GEM Listing Rules (if applicable);
5. the Board of the Company having approved and authorized the Subscription Agreement and the transactions contemplated thereunder;
6. the board of directors of the Subscriber having approved and authorized the Subscription Agreement and the transactions contemplated thereunder;
7. the passing of resolution(s) by the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, at the SGM;
8. the Listing Committee of the Stock Exchange shall have approved the issue of the Convertible Bonds either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall object without reasonable grounds and the satisfaction of such conditions;

LETTER FROM THE BOARD

9. the Listing Committee of the Stock Exchange shall have granted approval (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall object without reasonable grounds (if required)) of the listing of, and permission to deal in, the Conversion Shares which fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds;
10. the relevant monetary authority approving the issue of the Conversion Shares (if required);
11. all necessary governmental and regulatory approvals or consents (or waivers), including but not limited to those from the Stock Exchange, the SFC, China Securities Regulatory Commission, Ministry of Commerce of the PRC, State Administration of Foreign Exchange of the PRC and/or other authority (if applicable), required by the Company and Subscriber for the consummation of the transactions contemplated therein having been obtained;
12. any other approval as may be required for the Subscription;
13. no material adverse change in the business or in the financial or trading position of the Group; and
14. all representations, warranties and undertakings given by the Company under the Subscription Agreement remaining true and correct at all times as from the signing of the Subscription Agreement up to Completion, as if they were made on and as of Completion.

As at the Latest Practicable Date, the Directors confirm that there is no other approval as may be required for the Subscription as set out in paragraph (12) above.

The Company and the Subscriber undertake, and in favour of the other party under the Subscription Agreement, to exercise its best endeavours to procure the fulfilment of the conditions precedent set out above, including without limitation, by making all necessary applications and the timely supply of information to the Hong Kong Stock Exchange and the SFC and other relevant governmental or regulatory authorities.

Save and except for conditions (4) and (10), none of the conditions above can be waived. If the conditions above are not fulfilled on or before Long Stop Date, the obligations of the Company and the Subscriber under the Subscription Agreement shall forthwith cease and terminate and neither the Company nor the Subscriber shall have any claim against the other party save for any antecedent breach thereof provided under the Subscription Agreement.

The Long Stop Date has been agreed by the Company and the Subscriber after taking into consideration the expected time required for satisfying the conditions precedent under the Subscription Agreement and the expected time required for the Subscriber in obtaining the necessary governmental and regulatory approvals in particular those from China Securities Regulatory Commission, Ministry of Commerce of the PRC and the State Administration of Foreign Exchange of the PRC. In view of the above, the Company considers the Long Stop Date as appropriate.

LETTER FROM THE BOARD

Completion

Subject to the fulfillment of the conditions precedent set out in subsection “Conditions Precedent”, completion shall take place on or before the Completion Date, and shall complete within five (5) Business Days after the day on which the conditions precedent set out above are satisfied (or such later date as may be agreed between the parties in writing).

SPECIFIC MANDATE

The Subscription Agreement and the transactions contemplated thereunder including, among other things, the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the SGM.

APPLICATION FOR LISTING

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

INFORMATION ON THE SUBSCRIBER

The Subscriber, Hangzhou Liaison Interactive Information Technology Co., Limited* (杭州聯絡互動信息科技股份有限公司), is a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002280.SZ).

The Subscriber is principally engaged in the research and development and operation of mobile terminal operation system, internet communication engine platform and related applications. Its products include operating systems, internet communication engines, basic mobile applications, social applications, mobile management tools and information, etc. Through the use of mobile terminal operation system, the Subscriber performs application distribution, operates its own products and products developed in collaboration with third parties, and provides comprehensive mobile internet application services to mobile end-users.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in (1) the provision of copyright content to end-users through well-established platforms and the provision of marketing and promotional services to professional athletes (the “**Sports Business Segment**”); (2) the operation of film-based cultural and tourism focused projects, the operation of movie, television and music content licensing business and the investment in movie, television and musical production (the “**Entertainment Business Segment**”); and (3) the operation of celebrity E-sports teams which include the “J Team”, which holds the exclusive right to use the image and name of Mr. Jay Chou in the E-sports field and is currently one of the top tier League of Legends E-sports teams in Asia, and the Company’s Dota team which holds the exclusive right to use the name and endorsement of Jeremy Lin, and the operation of live webcast agency business (the “**E-sports and Webcast Celebrity Business Segment**”).

* For identification purpose only

LETTER FROM THE BOARD

The Directors are of the view that the entering into the Subscription Agreement (i) represents 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; and (ii) 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 Business Segment of the Group despite that the Subscriber will not appoint a director and is not eligible to nominate any candidate to the Board of the Company. Pursuant to the Subscription Agreement, the conversion period shall commence on 31 October 2017 and ending on the day which falls on the 5th anniversary of the date of issue of Convertible Bonds. As at the Latest Practicable Date, the Company is not aware of any current intention to convert any of the Convertible Bonds by the Subscriber.

The Board considers that the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Assuming full exercise of the conversion rights attaching to the Convertible Bonds, it is expected that the Company will raise a gross proceed of HK\$412,500,000 and a net proceed (after deducting the relevant expenses) of approximately HK\$411,700,000. The Company intends to apply (i) approximately HK\$180 million for expanding eSports 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, details of which are set out in the third quarterly report of the Group for the nine months ended 30 September 2016 (“**Third Quarterly Report**”); (ii) approximately HK\$20 million for promotion and marketing in relation to the Group’s athlete management business; (iii) approximately HK\$100 million for the development of the entertainment segment through investment in movies and television shows; (iv) approximately HK\$50 million for the acquisition of sports licenses; and (v) remaining balance of approximately HK\$61.7 million for general working capital of the Group which includes staff costs, rental and utilities, professional fee and costs associated with operating the Group’s subsidiaries etc. With reference to the interim report of the Company for the six months ended 30 June 2016, the aggregate sum of administrative expenses which included the aforementioned costs amounted to approximately HK\$22.1 million, which has subsequently increased to approximately HK\$33.2 million as at 30 September 2016 as set out in the Third Quarterly Report, it is envisaged that with the operations of the Company’s newly acquired subsidiaries, the administrative cost of the Group will increase. The Group needs to maintain sufficient working capital to fund the operation and growth of its businesses while the remaining balance of the general working capital will be used to finance other potential investment opportunities as the Company may identify.

FUND RAISING ACTIVITY DURING THE PAST 12 MONTHS FROM THE LATEST PRACTICABLE DATE

The Company did not conduct any equity fundraising activity in the last twelve (12) months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 1,887,526,114 Shares in issue. The following table sets out the shareholding interests of the Company as at (i) the Latest Practicable Date and (ii) immediately upon exercise in full of the Conversion Rights attaching to the Convertible Bonds, for illustration purposes only:

	As at the Latest Practicable Date		Immediately after the full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.55 per Conversion Share	
	No. of Shares	<i>Approx. % of the entire issued share capital</i>	No. of Shares	<i>Approx. % of the entire issued share capital</i>
Directors				
Hsu Tung Sheng	18,375,000	0.97%	18,375,000	0.70%
Hsu Tung Chi (<i>Note 1</i>)	204,885,782	10.85%	204,885,782	7.77%
Zhang Jing (<i>Note 2</i>)	80,000,000	4.24%	80,000,000	3.03%
Lai Kwok Fai, Franki	54,483,437	2.89%	54,483,437	2.07%
Public shareholders	1,529,781,895	81.05%	1,529,781,895	58.00%
Subscriber (<i>Note 3</i>)	–	–	750,000,000	28.44%
Total	<u>1,887,526,114</u>	<u>100.00%</u>	<u>2,637,526,114</u>	<u>100.00%</u>

Note 1: Mr. Hsu Tung Chi beneficially owns 186,639,559 Shares. Daily Technology Company Limited is beneficially owned as to 100% by Mr. Hsu Tung Chi. Daily Technology Company Limited beneficially owns 18,246,223 Shares. Under the Securities and Futures Ordinance (Chapter 571, laws of Hong Kong), Mr. Hsu Tung Chi is deemed to be interested in 18,246,223 Shares.

Note 2: Ms. Zhang Jing beneficially owns 48,000,000 Shares. Crown Smart Investment Limited holds 32,000,000 Shares in trust, which Ms. Zhang Jing is one of the eligible beneficiaries of Crown Smart Investment Limited and hence had deemed interests in such Shares.

Note 3: Pursuant to the Conversion Restrictions in relation to the instrument constituting the Convertible Bonds, the Bondholders and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code.

SGM

The SGM will be convened and held at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong at 5:00 p.m. on Friday, 31 March 2017 for the purpose of considering and, if thought fit, approving (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate. The Subscriber and its associates do not currently hold any Shares and accordingly will not vote on the resolution.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder has a material interest in the transactions contemplated under the Subscription Agreement. As such, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM.

A notice convening the SGM is set out on pages 18 to 19 of this circular. A form of proxy for use at the SGM is enclosed herewith. Whether or not you are able to attend the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Shareholders and potential investors of the Company should note that completion of the Subscription is subject to fulfillment of the Conditions Precedent under the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares.

RECOMMENDATION

Having noted and considered the reasons stated under the sections "REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS", the Board (including the independent non-executive Directors) considered that the terms of (i) the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares and (ii) the Specific Mandate are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolution to approve (i) the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares and (ii) the Specific Mandate and the transactions contemplated thereunder.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By order of the Board
China Digital Culture (Group) Limited
Hsu Tung Sheng
Chairman

NOTICE OF SGM



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “SGM”) of China Digital Culture (Group) Limited (the “Company”) will be convened and held at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Friday, 31 March 2017 at 5:00 p.m. to consider and, if thought fit, pass the following resolution as ordinary resolution.

ORDINARY RESOLUTION

“THAT:

1. (a) the subscription agreement dated 8 February 2017 (the “**Subscription Agreement**”) entered into between the Company as issuer and Hangzhou Liason Interactive Information Technology Co., Limited* (杭州聯絡互動信息科技股份有限公司) as the subscriber (the “**Subscriber**”) in relation to the subscription by the Subscriber of the five-year 5.5% interest rate unsecured convertible bonds in the principal amount of HK\$412,500,000 (the “**Convertible Bonds**”), which carry the rights to convert into the maximum of 750,000,000 Shares (the “**Conversion Shares**”) of HK\$0.04 each in the share capital of the Company at a conversion price of HK\$0.55 per Conversion Share (subject to adjustments) and the transaction contemplated thereby be and are hereby approved, confirmed and ratified and that the board (the “**Board**”) of directors (the “**Directors**”) of the Company be and is hereby authorised to make changes or amendments to the Subscription Agreement as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked “A” and initialed by the chairman of the SGM for the purpose of identification;
1. (b) conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares, the issue and allotment of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds be and is hereby approved; and

NOTICE OF SGM

1. (c) the Directors be and are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which they may consider necessary, expedient or desirable to give effect to the terms of the Subscription Agreement, the allotment and issue of the Conversion Shares or any transactions contemplated under the Subscription Agreement.”

By order of the Board
China Digital Culture (Group) Limited
Hsu Tung Sheng
Chairman

Hong Kong, 13 March 2017

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of business in Hong Kong:
Room 2801A, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Notes:

- (a) Any member of the Company entitled to attend and vote at the SGM is entitled to appoint a proxy to attend and vote on behalf of him/her/it. A proxy needs not be a member. A member of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares of the Company in respect of which each such proxy is so appointed.
- (b) In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a member from attending and voting in person at the SGM or any adjournment thereof should such member so wishes and, in such event, the form of proxy shall be deemed to be revoked.
- (c) Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register of members of the Company in respect of the relevant joint holding.
- (d) All votes to be taken at the SGM shall be conducted by way of poll.
- (e) If a Typhoon Signal No. 8 or above is hoisted, a or a "Black" rainstorm warning signal is in force at or at any time after 8:00 a.m. on the date of the SGM, the SGM will be postponed. The Company will post an announcement on the Company's website and HKExnews website to notify the shareholders of the Company of the date, time and place of the rescheduled SGM.

As at the date of this notice, the executive Directors are Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Chang Ching Lien, Ms. Zhang Jing and Mr. Lai Kwok Fai, Franki. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin.