



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)



INTERIM
REPORT
2019



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This report, for which the directors (the “Directors”) of China Digital Culture (Group) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hsu Tung Chi (*Chairman and Chief Executive Officer*)

Zhang Jing

Lai Kwok Fai, Franki

Hsu Tung Sheng (*resigned on 17 May 2019*)

Independent Non-executive Directors

Kwok Chi Sun, Vincent

Wong Tak Shing

Gou Yanlin

AUDIT COMMITTEE

Kwok Chi Sun, Vincent

Wong Tak Shing

Gou Yanlin

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent

Hsu Tung Chi

Gou Yanlin

NOMINATION COMMITTEE

Kwok Chi Sun, Vincent

Hsu Tung Chi

Wong Tak Shing

COMPANY SECRETARY

Tung Sze Ho, Dicky

COMPLIANCE OFFICER

Hsu Tung Chi

AUTHORISED REPRESENTATIVES

Hsu Tung Chi

Tung Sze Ho, Dicky

AUDITOR

Elite Partners CPA Limited

Certified Public Accountants

10/F, 8 Observatory Road

Tsim Sha Tsui

Kowloon

Hong Kong

REGISTERED OFFICE

Victoria Place, 5th Floor,

31 Victoria Street

Hamilton HM 10

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 17B, 17/F,

United Centre,

95 Queensway

Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Ltd

Victoria Place, 5th Floor,

31 Victoria Street

Hamilton HM 10

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

Nanyang Commercial Bank, Limited

Bank of Communications Co., Ltd

WEBSITE ADDRESS

www.cdculture.com

STOCK CODE

8175

INTERIM RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together the "Group") for the three months and six months ended 30 June 2019 together with the comparative figures for the corresponding periods in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	4	65,794	92,503	134,345	168,012
Cost of services rendered		(36,985)	(55,788)	(79,643)	(98,995)
Gross profit		28,809	36,715	54,702	69,017
Gain on disposal of subsidiaries	3	-	-	60,532	-
Other income/(expense)		458	1,253	1,639	1,583
Administrative and other expenses		(22,211)	(21,575)	(40,961)	(38,445)
Finance costs		(8,437)	(9,209)	(16,692)	(17,363)
Share of results of a joint venture		41	611	(756)	(13)
(Loss)/profit before taxation	6	(1,340)	7,795	58,464	14,779
Income tax expense	7	(5,368)	(4,685)	(8,469)	(7,403)
(Loss)/profit for the period		(6,708)	3,110	49,995	7,376

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Other comprehensive (loss)/income for the period					
Foreign currency translation differences		(4,435)	(2,699)	(1,242)	438
Total comprehensive (loss)/income for the period		(11,143)	411	48,753	7,814
(Loss)/profit attributable to:					
– Equity holders of the Company		(6,674)	3,068	50,158	7,373
– Non-controlling interests		(34)	42	(163)	3
		(6,708)	3,110	49,995	7,376
Total comprehensive (loss)/income attributable to:					
– Equity holders of the Company		(11,093)	289	48,963	7,879
– Non-controlling interests		(50)	122	(210)	(65)
		(11,143)	411	48,753	7,814
Dividends	7	–	–	–	–
Earnings/(loss) per share	8				
– Basic		(0.34) cents	0.16 cents	2.59 cents	0.38 cents
– Diluted		(0.34) cents	0.16 cents	2.33 cents	0.38 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Non-current assets		
	8,073	8,742
Property, plant and equipment		
	280,754	288,069
Intangible assets		
	641,087	641,087
Goodwill		
	1,495	1,495
Interest in an associate		
	4,850	5,627
Interest in joint ventures		
Financial assets at fair value through other comprehensive income	60,479	60,506
Deposits for acquisition of unlisted investments	2,340	2,340
Deposit for film production	97,853	99,628
Prepayments	68,313	74,739
Right to use	10,412	-
	1,175,656	1,182,233
Current assets		
	117,140	121,490
Inventories		
	7,143	7,143
Derivative financial assets		
Financial assets at fair value through profit or loss	19,503	19,503
Accounts and other receivables	184,222	97,930
10		
Bank balances and cash	53,378	78,776
Assets of disposal group classified as held for sale	-	7,271
	381,386	332,113
Current liabilities		
	24,052	54,461
Accounts and other payables		
11		
Interest-bearing borrowings	1,744	4,538
Tax payable	26,718	18,346
Contingent consideration-convertible bonds	212,314	212,314
Liabilities of disposal group classified as held for sale	-	1,067
Lease commitments	5,472	-
	270,300	290,726
Net current assets	111,086	41,387
Total assets less current liabilities	1,286,742	1,223,620

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

	Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Non current liabilities			
Convertible bonds	12	408,269	397,439
Deferred tax liabilities		53,442	52,660
Lease commitments		4,939	-
		466,650	450,099
NET ASSETS			
		820,092	773,521
Capital and reserves			
Share capital		77,607	77,607
Reserves		746,337	694,666
Equity attributable to equity holders of the Company		823,944	772,273
Non-controlling interests		(3,852)	1,248
TOTAL EQUITY		820,092	773,521

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2019

	Attributable to equity holders of the Company																								
	Reserves												Non-controlling interests	Total											
	Share capital	Share premium	Special reserve	Capital reserves	Foreign currency translation reserve	Share option reserve	Statutory reserve	Convertible bonds reserve	FV TOCI reserve	Accumulated losses	Total reserves	Subtotal			HK\$'000										
																HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Note a)																(Note b)	(Note c)								
2018																									
At 1 January 2018	77,607	948,417	10,084	(20,749)	370	-	8,731	60,928	-	(187,439)	820,342	897,949	(1,180)	896,769											
Profit for the period and total comprehensive income for the period	-	-	-	-	506	-	-	-	-	7,373	7,879	7,879	(65)	7,814											
At 30 June 2018	77,607	948,417	10,084	(20,749)	876	-	8,731	60,928	-	(180,066)	828,221	905,828	(1,245)	904,583											
2019																									
At 1 January 2019	77,607	948,417	10,034	(20,749)	(5,291)	3,932	8,731	60,928	(19,067)	(292,269)	694,666	772,273	1,248	773,521											
Profit for the period and total comprehensive income for the period	-	-	-	-	(1,195)	-	-	-	-	50,158	48,963	48,963	(210)	48,753											
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,890)	(4,890)											
Equity-settled share-based payment	-	-	-	-	-	2,708	-	-	-	-	2,708	2,708	-	2,708											
At 30 June 2019	77,607	948,417	10,034	(20,749)	(6,486)	6,640	8,731	60,928	(19,067)	(242,111)	746,337	823,944	(3,852)	820,092											

Notes:

- The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation which took place in 2003.
- The capital reserve represents the share of net liabilities of additional interest in subsidiaries acquired without change in control.
- Statutory reserve comprises statutory surplus reserves fund of the subsidiaries in the People's Republic of China ("PRC") and form part of shareholders' fund. According to the Articles of Association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2019

	Six months ended 30 June 2019 (Unaudited) HK\$'000	Six months ended 30 June 2018 (Unaudited) HK\$'000
Net cash used in operating activities	(67,670)	(123,713)
Net cash from/(used) in investing activities	43,068	(6,513)
Net cash outflow before financing activities	(24,602)	(130,226)
Net cash from/(used) in financing activities	(3,594)	1,795
Net decrease in cash and cash equivalents	(28,196)	(128,431)
Cash and cash equivalents at beginning of the period	78,776	268,969
Effect of exchange rate fluctuations, net	2,798	3,503
Cash and cash equivalents at end of the period	53,378	144,041



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law (as revised) of the Cayman Islands and continued in Bermuda as an exempted company with limited liability in accordance with the Companies Act 1981 (as amended) of Bermuda. The Company's shares are listed on GEM. The registered office of the Company is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda and its principal place of business is located at Unit 17B, 17 Floor, United Centre, 95 Queensway, Hong Kong.

The Group is principally engaged in the business of licensing and sales of entertainment, sports and music content, operating E-sports and webcast celebrity business, operating film-based cultural parks and tourism focused projects, planning and design of concerts and providing marketing and promotional services for professional athletes.

2. STATEMENT OF COMPLIANCE

These condensed interim 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 ("HKICPA"). The condensed interim financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). These condensed financial statements also comply with the applicable disclosure requirements under the GEM Listing Rules.

These financial information have been prepared on a basis consistent with the accounting policies adopted in the audited consolidated financial statements for the year ended 31 December 2018. The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

3. DISPOSAL OF SUBSIDIARIES

The Group disposed of its entire interest in Star Summer Company Limited ("Star Summer") and its subsidiaries ("Star Summer Group") to an independent third party at an aggregate cash consideration of HK\$70,000,000 on 19 March 2019. The calculation of the consideration is based on the following data:

	<i>HK\$'000</i>
<hr/>	
Net assets disposed of:	
Property, plant and equipment	231
Accounts and other receivables	14,752
Bank balances and cash	172
Accounts and other payables	(23)
Tax payable	(774)
<hr/>	
	14,358

Consideration:

Cash deposit received	14,000
Cash consideration received	56,000
<hr/>	
	70,000

Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	<i>HK\$'000</i>
<hr/>	
Cash consideration	70,000
Cash and cash equivalents disposed of	(172)
<hr/>	
Net inflow of cash and cash equivalents	69,828

Gain on disposal of subsidiaries:

Consideration received	70,000
Net assets disposed of	(14,358)
Non-controlling interests	4,890
<hr/>	
	60,532

4. REVENUE

Revenues were derived from the following business activities of the Group:

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
	Entertainment	46,253	69,180	90,615
Sports	15,415	17,122	35,286	36,802
Theme Park	4,126	6,201	8,444	12,405
Total revenue	65,794	92,503	134,345	168,012

5. SEGMENT INFORMATION

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results from continued operations by reportable segment.

Six months ended 30 June

	2019 (Unaudited)				2018 (Unaudited)			
	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Consolidated HK\$'000	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Consolidated HK\$'000
Segment revenue								
Sale to external customers	90,615	35,286	8,444	134,345	118,805	36,802	12,405	168,012
Segment results								
Unallocated income				2				2
Unallocated expenses				(27,201)				(26,368)
Profit before taxation				58,464				14,779
Taxation				(8,469)				(7,403)
Profit for the period				49,995				7,376

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

5. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

The accounting policies of the reporting segments are the same as the Group's accounting policies. Segment results represent the results achieved by each segment without allocation of central administration costs including Directors' emoluments, investment and other income, other gains and losses, finance costs, and income tax expenses. The measurement method described above was the method reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

	30 June 2019 (Unaudited)				31 December 2018 (Audited)			
	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000	Entertainment HK\$'000	Sports HK\$'000	Theme park HK\$'000	Total HK\$'000
Assets before the following items:								
Goodwill	341,293	61,627	109,713	512,633	329,829	28,744	105,048	463,621
Intangible assets	230,598	105,635	304,854	641,087	230,598	105,635	304,854	641,087
Interest in joint ventures	67,508	-	213,246	280,754	84,000	-	204,069	288,069
Interest in an associate	4,850	-	-	4,850	5,627	-	-	5,627
	1,495	-	-	1,495	1,495	-	-	1,495
Segment assets	645,744	167,262	627,813	1,440,819	651,549	134,379	613,971	1,399,899
Unallocated assets				116,223				114,447
Consolidated total assets				1,557,042				1,514,346
Segment liabilities	26,266	25,504	270,167	321,937	45,097	20,168	268,051	333,316
Unallocated liabilities				415,013				407,509
Consolidated total liabilities				736,950				740,825

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments; and
- Other than convertible bonds, all liabilities are allocated to the sales/service activities of individual segments.

5. SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

Six months ended 30 June

	2019 (Unaudited)				2018 (Unaudited)			
	Entertainment	Sports	Theme park	Total	Entertainment	Sports	Theme park	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of intangible assets	(5,286)	-	-	(5,286)	(4,489)	-	-	(4,489)
Depreciation of property, plant and equipment	(377)	-	(3)	(380)	(386)	-	(4)	(390)
Gain on disposal of subsidiaries	50,792	-	-	50,792	-	-	-	-

(d) Geographic information

The Group's operations are principally located in Hong Kong and the PRC.

The Group's revenue from external customers by location of operations and information on its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	Six months ended 30 June		30 June	31 December
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Hong Kong	105,200	90,694	187,845	177,433
PRC	20,233	70,571	843,638	851,326
Taiwan	6,926	6,747	6,601	8,671
USA	1,986	-	95	96
	134,345	168,012	1,038,179	1,037,526

Non-current assets presented above exclude financial instruments, interest in an associate and interest in joint ventures.

6. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Amortisation of right to use	1,338	–	2,647	–
Amortisation of intangible assets	2,643	2,090	5,286	4,489
Depreciation	190	195	380	390
Gain on disposal of subsidiaries	–	–	50,792	–

7. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the three months and six months ended 30 June 2019 and 2018. The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the three months and six months ended 30 June 2019 and 2018 based on existing legislation, interpretations and practices in respect thereof.

	Three months ended		Six months ended	
	30 June		30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (restated) HK\$'000
Current				
– Hong Kong	4,349	2,732	7,206	3,774
– PRC	1,270	2,517	1,765	4,193
Deferred tax	(251)	(564)	(502)	(564)
	5,368	4,685	8,469	7,403

8. DIVIDENDS

No dividends were paid, declared or proposed during the three months ended 30 June 2019 and 2018. The Directors of the Company do not recommend payment of interim dividend for the three months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

(a) Basic earnings per share

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Loss)/profit attributable to equity holders of the Company	(6,674)	3,068	50,158	7,373
	2019 No. of Shares '000	2018 No. of Shares '000	2019 No. of Shares '000	2018 No. of Shares '000
Shares				
Weighted average number of ordinary shares in issue during the period	1,940,176	1,940,176	1,940,176	1,940,176
Basic earnings/(loss) per share	HK(0.34) cents	HK0.16 cents	HK2.59 cents	HK0.38 cents

9. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Loss)/profit attributable to equity holders of the Company	(6,674)	3,068	50,158	7,373
Effect of dilutive potential shares:				
– Interest on Convertible bonds, net of tax	–	–	13,300	–
Earnings for the purpose of diluted earnings per share	(6,674)	3,068	63,458	7,373
	2019 No. of Shares '000	2018 No. of Shares '000	2019 No. of Shares '000	2018 No. of Shares '000
Shares				
Weighted average number of ordinary shares in issue during the period	1,940,176	1,940,176	1,940,176	1,940,176
Effect of dilutive potential ordinary shares:				
– Convertible bonds	–	–	780,500	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,940,176	1,940,176	2,720,676	1,940,176
Diluted earnings per share	HK(0.34) cents	HK0.16 cents	HK2.33 cents	HK0.38 cents

10. ACCOUNTS AND OTHER RECEIVABLES

Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Accounts receivable		
From third parties	157,892	90,161
Allowance for doubtful debts	(6,563)	(6,345)
	151,329	83,816
Prepayments and other receivables-current		
Deposits, prepayments and other receivables	26,022	8,978
Prepayments to licensors and service providers	3,439	3,439
Due from directors of subsidiaries of the Company	1,646	1,647
Due from Directors	1,786	50
	32,893	14,114
	184,222	97,930
Prepayments-non-current		
Prepayments-use of the Likeness of artists for the Group's E-sports team	5,913	12,339
Prepayment-contract costs for production of TV series	62,400	62,400
	68,313	74,739
	252,535	172,669

An ageing analysis of the accounts receivable is as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Current	60,450	56,900
Less than 1 month past due	34,000	7,170
1 month to 3 months past due	27,203	19,746
3 months to 12 months past due	29,676	-
Over 1 year past due	-	-
	90,879	26,916
	151,329	83,816

Note (i) The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due approximate their fair value.

11. ACCOUNTS AND OTHER PAYABLES

	<i>Note</i>	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Accounts payable			
Accounts payable	<i>(i)</i>	2,029	13,952
Other payables			
Accrued charges and other payables		18,609	21,085
Deposit received		–	14,000
Contract liabilities		2,625	4,630
Due to the Directors	<i>(ii)</i>	–	699
Due to directors of subsidiaries of the Company	<i>(iii)</i>	789	95
		22,023	40,509
		24,052	54,461

(i) Accounts payable

At the end of the reporting period, the ageing analysis of accounts payables is in the range of zero to 30 days.

(ii) Due to the Directors

The amounts due to the Directors, are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due to Directors approximate their fair value.

(iii) Due to directors of subsidiaries of the Company

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due approximate their fair value.

12. CONVERTIBLE BONDS

On 19 June 2017, the Company issued convertible bonds ("CB") with the aggregate principal amount of HK\$412,500,000 issued in denomination and integral amount of HK\$412,500,000 in nominal amount for the aggregate cash consideration of HK\$412,500,000. The holders of the CB will be able to convert the outstanding principal amount of each of the CB in whole or in part (in multiples of HK\$1,000,000) into ordinary shares of the Company at a conversion price of HK\$0.55 per conversion share (subject to customary anti-dilutive adjustments) at any time following the date of issue until the maturity date (18 June 2022). The convertible bonds bear interest at 5.5 per cent per annum, payable annually. Also, the Company has an option to early redeem the CB at an amount equal to 105% of the principal amount any time since the issue date but before the maturity date. None of the CB have been converted into ordinary shares of the Company up to the date when the consolidated financial statements are authorised for issue.

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 8.7% which is based on market interest rates for a number of comparable convertible bonds denominated in Hong Kong dollars and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the fair value of the bonds and the fair value of the liability component and is included in convertible bonds reserves in equity. Subsequently, the liability component is carried at amortised cost.

13. OPERATING LEASE COMMITMENTS

The Group leases equipment and premises under operating leases. The leases are negotiated for a term ranging from 1 year to 5 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of equipment and premises falling due as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within one year	7,737	7,288
In the second to fifth years inclusive	8,284	6,425
Over five years	–	–
	16,021	13,713

14. EVENTS AFTER REPORTING PERIOD

Reference is made to the announcements of the company dated 11 June 2019 and 1 August 2019. The Company entered into an agreement (the "Agreement") with PhyNet Technology Co., Limited (the "Vendor") pursuant to which the Company has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, 10% of issued share capital of One Pigeon Co., Ltd., at a consideration of HK\$17,600,000. As a result of the unanticipated difficulty in fulfilling all of the conditions precedent to the Agreement, the Company and the Vendor entered into a deed of termination on 1 August 2019, pursuant to which the parties mutually agreed to terminate the Agreement with effect from 1 August 2019. Saved as those disclosed above, there has been no material events since 30 June 2019 to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2019, the Group recorded revenue of approximately HK\$134,345,000 (30 June 2018: approximately HK\$168,012,000) and a profit attributable to equity holders of the Company of approximately HK\$50,158,000 (30 June 2018: approximately HK\$7,373,000). The businesses of the Group include the sports, entertainment and theme park segments.

I. Sports Segment

The sports segment, licensing and sale of sports content and marketing and promotional services for professional athletes which are operated by Nova Dragon International Limited (“Nova Dragon”) and Socle Limited (“Socle”).

During the six months ended 30 June 2019, the sports segment recorded revenues of approximately HK\$35,286,000 (30 June 2018: approximately HK\$36,802,000). The decrease in revenue from the sports segment is primarily attributable to the decrease in revenue from sale of sports licenses during the period.

Nova Dragon is principally engaged in assisting professional athletes with marketing and promotional activities worldwide. Socle is principally engaged in the business of licensing and sale of sports content and is one of the foremost providers of sports and entertainment content in the PRC.



II. Entertainment Segment

The entertainment segment includes the licensing and sale of music and entertainment content which is primarily operated by Far Glory Limited and Orient Digital Entertainment Limited respectively. The entertainment segment also includes the planning and design services for concerts, management and operations of the Group's E-sports teams and management of the Group's webcast celebrities.

For the six months ended 30 June 2019, the entertainment segment recorded revenues of approximately HK\$90,615,000 (30 June 2018: approximately HK\$118,805,000). The decrease in revenue is primarily attributable to the decrease in the sale of television and movie content.

III. Theme Park Segment

The theme park segment includes the film-based cultural theme park business and tourism focused projects which are operated by Dream World Holdings Limited ("Dream World") and its subsidiaries (the "Dream World Group").

For the six months ended 30 June 2019, the theme park segment recorded revenues of approximately HK\$8,444,000 (30 June 2018: approximately HK\$12,405,000). The decrease in revenue is primarily attributable to the decrease in consultancy revenue.

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

OUTLOOK

The Group will continue to expand the E-sports business. However, the Group will be looking to sell less cost-effective assets and focusing on investments in businesses that are cost-effective and high-performing. The Group will continue to build on the aggressive expansion of the E-sports industry in the PRC and is committed to creating an ecosystem that surrounds the E-sports industry including businesses in education, e-commerce, event operations and real estate development.

FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group recorded revenue of approximately HK\$134,345,000 as compared to approximately HK\$168,012,000 in the same period in 2018. The decrease in revenue is primarily attributable to decreased revenue from the entertainment businesses.

The Group reported a net profit attributable to equity holders of approximately HK\$50,158,000 for the six months ended 30 June 2019, compared to a net profit attributable to equity holders of approximately HK\$7,373,000 in the corresponding period of in 2018. The increase was due to the one-time gain on disposal of subsidiaries.

Administrative and other expenses for the six months ended 30 June 2019 amounted to approximately HK\$40,961,000 (30 June 2018: approximately HK\$38,445,000), representing an increase of approximately 6.5% compared with the same period of last year. The increase is primarily due to the increase in equity-settled share-based payment as a result of the granted share options in November 2018.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had current assets of approximately HK\$381,386,000 (31 December 2018: approximately HK\$332,113,000) and current liabilities of approximately HK\$270,300,000 (31 December 2018: approximately HK\$290,726,000). The current assets were comprised mainly of cash and bank balances of approximately HK\$53,378,000 (31 December 2018: approximately HK\$78,776,000), inventories of approximately HK\$117,140,000 (31 December 2018: approximately HK\$121,490,000) and together with accounts and other receivables of approximately HK\$184,222,000 (31 December 2018: approximately HK\$97,930,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK\$24,052,000 (31 December 2018: approximately HK\$54,461,000) together with contingent consideration of convertible bonds of approximately HK\$212,314,000 (31 December 2018: approximately HK\$ 212,314,000). The Group had approximately HK\$1,744,000 interest-bearing borrowings which is repayable within one year (31 December 2018: approximately HK\$4,538,000) and HK\$408,269,000 of convertible bonds at 30 June 2019 (31 December 2018: 397,439,000).

TREASURY POLICY

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 June 2019, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

GEARING RATIO

The gearing ratio (which is computed by consolidated borrowings divided by consolidated total equity) was 0.2% (31 December 2018: 0.6%). As at 30 June 2019, total borrowings of the Group amounted to approximately HK\$1,744,000 (31 December 2018: approximately HK\$4,538,000).

CHARGES ON GROUP ASSETS

As at 30 June 2019, there is no charge on the assets of the Group to secure the bank borrowings and the available banking facilities.

FOREIGN EXCHANGE RISK

Since almost all transactions of the Group are denominated either in Renminbi or Hong Kong dollars and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the Directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 30 June 2019, the Group had 126 (2018: 146) employees. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided.

The Group also has an employee share option scheme to provide eligible employees a performance incentive for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.



SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS

(i) Disposal of a subsidiary

On 24 December 2018, Summer Eagle Limited (“Summer Eagle”), a wholly-owned subsidiary of the Company, entered into an agreement with Richfield International Limited (“Richfield International”) pursuant to which Summer Eagle has agreed to sell and Richfield International has agreed to purchase 100% equity interests in Star Summer for a consideration of HK\$70,000,000. The disposal of 100% equity interests in Star Summer has been completed on 19 March 2019.

Reference is made to the announcements of the company dated 7 January 2019 and 27 June 2019. On 7 January 2019, Summer Eagle entered into an agreement with Hollyview International Limited (“Hollyview International”) pursuant to which Summer Eagle has agreed to sell and Hollyview International has agreed to purchase 100% equity interests in Digital Cultural and Creative Company Limited (“Digital Cultural”) for a consideration of HK\$80,000,000. On 27 June 2019, Summer Eagle and Hollyview International entered into a deed of termination in relation to the disposal of 100% equity interests in Digital Cultural, pursuant to which the parties have agreed to terminate the above-mentioned agreement with effect from 27 June 2019 and to release and discharge each other from their respective duties, obligations and liabilities as set out in the agreement dated 7 January 2019.

(ii) Acquisition of interest in a target company

Reference is made to the announcement of the Company dated 11 June 2019. The Company entered into an agreement (the “Agreement”) with PhyNet Technology Co., Limited (“PhyNet”) pursuant to which the Company has conditionally agreed to purchase, and PhyNet has conditionally agreed to sell, 10% of issued share capital of One Pigeon Co., Ltd., at a consideration of HK\$17,600,000. The Agreement was subsequently terminated on 1 August 2019.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the six month ended 30 June 2019 and thereafter to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in ordinary shares and underlying shares of the Company

Name of Director	Nature of interests	Number of shares interested	Approximate percentage or attributable percentage of shareholding (Note 4)
Mr. Hsu Tung Chi (Note 1)	Beneficial owner and interest of controlled corporation	385,986,782 (L)	19.89%
Ms. Zhang Jing (Note 2)	Beneficial owner and interest of controlled corporation	81,253,659 (L)	4.19%
Mr. Lai Kwok Fai, Franki (Note 3)	Beneficial owner and interest of controlled corporation	54,129,778 (L)	2.79%

(L) denotes long position



Notes:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 367,740,559 shares of the Company. Daily Technology Company Limited ("Daily Technology") beneficially owns 18,246,223 shares, which is in turn wholly owned by Mr. Hsu. Under the SFO, Mr. Hsu is deemed to be interested in 18,246,223 shares of the Company.
2. Ms. Zhang Jing ("Ms. Zhang") beneficially owns 53,853,659 shares. Crown Smart Investment Limited ("Crown Smart") beneficially owns 27,400,000 shares of the Company, which is in turn wholly owned by Ms. Zhang. Under the SFO, Ms. Zhang is deemed to be interested in 27,400,000 shares of the Company.
3. Mr. Lai Kwok Fai, Franki ("Mr. Lai") beneficially owns 960,000 shares. Earn Wise Limited ("Earn Wise") beneficially owns 22,669,778 shares of the Company, which is in turn wholly owned by Mr. Lai. Under the SFO, Mr. Lai is deemed to be interested in 22,669,778 shares of the Company.

Earn Wise holds convertible bonds in the principal amount of HK\$14,640,000 convertible to 30,500,000 shares of the Company at the initial conversion price of HK\$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interested in the 30,500,000 shares of the Company underlying the convertible bonds held by Earn Wise.

4. Based on 1,940,176,170 shares of the Company in issue as at 30 June 2019.

(ii) Interest in underlying shares of the convertible bonds

Name of director	Nature of interests	Principal amount of the convertible bonds	Number of underlying shares	Approximate percentage of interests (Note 2)
Mr. Lai Kwok Fai, Franki (Note 1)	Interest of controlled corporation	HK\$14,640,000	30,500,000 (L)	1.57%

Notes:

1. Earn Wise is beneficially owned as to 100% by Mr. Lai. The underlying shares represented the new shares to be issued upon full conversion of HK\$14,640,000 convertible bonds held by Earn Wise, at the initial conversion price of HK\$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interested in 30,500,000 underlying shares of the Company.
2. Based on 1,940,176,170 shares of the Company in issue as at 30 June 2019.

(L) denotes long position

Save as disclosed above, as at 30 June 2019, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 27 March 2013 pursuant to an ordinary resolution passed at a special general meeting and amended on 29 September 2014. On 16 November 2018, the Company granted share options to certain eligible participants to subscribe for a total of 140,000,000 ordinary shares of HK\$0.04 each in the share capital of the Company under the Scheme. Details of the movements in the number of share options during the period ended 30 June 2019 under the Scheme are as follows:

Categories of grantees	Outstanding	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding	Exercise price HK\$	Grant date	Exercisable period
	as at 1 January 2019				at 30 June 2019			
Directors								
Mr. Hsu Tung Sheng (resigned on 17 May 2019)	16,000,000	-	-	-	16,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
Mr. Hsu Tung Chi	16,000,000	-	-	-	16,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
Employees (1)	108,000,000	-	-	-	108,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
	140,000,000	-	-	-	140,000,000			

Notes:

- (1) Employees of member of the Group (including nominees and/or trustees of any employee benefit trusts established for them) or associates as the Board determines.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 30 June 2019, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Interest in ordinary shares of the Company

Name of substantial shareholder	Nature of interests	Number of shares interested	Approximate percentage or attributable percentage of shareholding (Note 4)
Ms. Chuang Meng Hua (Note 1)	Interest of a spouse	385,986,782 (L)	19.89%
Best Million Holdings Limited (Note 2)	Beneficial owner	119,976,405 (L)	6.18%
Ms. Ma Hsin-Ting (Note 2)	Interest of controlled corporation	119,976,405 (L)	6.18%
Ease Wing Limited (Note 3)	Beneficial owner	114,816,406 (L)	5.92%
Mr. Ho Chi Sing (Note 3)	Interest of controlled corporation	114,816,406 (L)	5.92%

(L) denotes long position



Notes:

1. Ms. Chuang Meng Hua is the spouse of Mr. Hsu, therefore, pursuant to the SFO, she is deemed to be interested in all the shares of the Company in which Mr. Hsu is interested.
2. Best Million Holdings Limited (“Best Million”) is wholly and beneficially owned by Ms. Ma Hsin-Ting (“Ms. Ma”). Best Million beneficially owns 119,976,405 shares of the Company. Under the SFO, Ms. Ma is deemed to be interested in the 119,976,405 shares held by Best Million.
3. Ease Wing Limited (“Ease Wing”) is wholly and beneficially owned by Mr. Ho Chi Sing (“Mr. Ho”). Ease Wing beneficially owns 114,816,406 shares of the Company. Under the SFO, Mr. Ho is deemed to be interested in 114,816,406 shares held by Ease Wing.
4. Based on 1,940,176,170 shares of the Company in issue as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

The Directors believe that none of the Directors nor the controlling shareholders (as defined in the GEM Listing Rules) of the Company nor any of their respective close associates had an interest in a business which competes or may compete with the business of the Group during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, the Company repurchased 740,000 shares of its own ordinary shares through the Stock Exchange at total consideration of approximately HK\$109,990. Save as those disclosed above, neither the Company nor any of its subsidiaries have purchased, sold or redeemed interests in any of the Company's listed securities.


DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Company has confirmed the Directors' compliance with such code of conduct and the required standard of dealings regarding securities transactions during the six months ended 30 June 2019 and thereafter to the date of this report.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising shareholder's interests.

To the best knowledge of the Directors, the Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") according to Appendix 15 of the GEM Listing Rules. Save for deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company has appointed Mr. Hsu Tung Chi as both its chairman and chief executive officer, following the resignation of ex-chairman of the Board on 17 May 2019. The Directors consider that vesting the roles of the chairman of the Board and the chief executive officer of the Company in Mr. Hsu Tung Chi is beneficial to the management and business development of the Group and will provide a strong



and consistent leadership to the Group. In addition, under the supervision by the Board which currently consists of three executive directors and three independent non-executive directors, the interest of the shareholders of the Company will be adequately and fairly represented. Save as disclosed, the Directors consider that during the six months ended 30 June 2019 and thereafter to the date of this report, the Company has applied the principles and complied with all the applicable code provisions set out in the CG Code.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30 June 2019, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with businesses of the Group.

EVENTS AFTER REPORTING PERIOD

Reference is made to the announcements of the company dated 11 June 2019 and 1 August 2019. As a result of the unanticipated difficulty in fulfilling all of the conditions precedent to the Agreement, the Company and PhyNet entered into a deed of termination on 1 August 2019, pursuant to which the parties mutually agreed to terminate the Agreement with effect from 1 August 2019.

Saved as those disclosed above, there has been no material events since 30 June 2019 to the date of this report.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the interim reports and quarterly reports. As at 30 June 2019, the Audit Committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Kwok Chi Sun, Vincent.

The Group's unaudited interim results for the six months ended 30 June 2019 has been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

By order of the Board of
China Digital Culture (Group) Limited
Hsu Tung Chi
Chairman and Chief Executive Officer

Hong Kong, 14 August 2019

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