



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)



THIRD  
QUARTERLY  
REPORT  
2019



## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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**Given that companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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

#### 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](http://www.cdculture.com)

### STOCK CODE

8175

## THIRD QUARTERLY 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 nine months ended 30 September 2019 together with the comparative figures for the corresponding period in 2018, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and the nine months ended 30 September 2019

	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	4	35,102	43,283	169,447	211,295
Cost of services rendered and cost of good sold		(31,706)	(24,993)	(111,349)	(123,988)
Gross profit		3,396	18,290	58,098	87,307
Gain on disposal of subsidiaries	3	–	–	60,532	–
Other income		650	1,717	2,289	3,300
Administrative and other expenses		(16,453)	(25,713)	(57,414)	(64,158)
Finance costs		(8,645)	(7,946)	(25,337)	(25,309)
Share of results of a joint venture		(147)	(511)	(903)	(524)
<b>(Loss)/profit before taxation</b>		<b>(21,199)</b>	<b>(14,163)</b>	<b>37,265</b>	<b>616</b>
Income tax expense	5	3,365	(2,097)	(5,104)	(9,500)
<b>(Loss)/profit for the period</b>		<b>(17,834)</b>	<b>(16,260)</b>	<b>32,161</b>	<b>(8,884)</b>

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<b>Other comprehensive loss for the period</b>					
Foreign currency translation differences		(4,129)	(6,291)	(5,371)	(5,853)
<b>Total comprehensive (loss)/income for the period</b>		<b>(21,963)</b>	<b>(22,551)</b>	<b>26,790</b>	<b>(14,737)</b>
<b>(Loss)/profit attributable to:</b>					
– Equity holders of the Company		(17,750)	(16,175)	32,408	(8,802)
– Non-controlling interest		(84)	(85)	(247)	(82)
		<b>(17,834)</b>	<b>(16,260)</b>	<b>32,161</b>	<b>(8,884)</b>
<b>Total comprehensive (loss)/income attributable to:</b>					
– Equity holders of the Company		(21,839)	(22,507)	27,124	(14,628)
– Non-controlling interest		(124)	(44)	(334)	(109)
		<b>(21,963)</b>	<b>(22,551)</b>	<b>26,790</b>	<b>(14,737)</b>
<b>Dividends</b>	6	–	–	–	–
<b>Earnings per share</b>	7				
– Basic		HK(0.91) cents	HK(0.83) cents	HK1.67 cents	HK(0.45) cents
– Diluted		HK(0.91) cents	HK(0.83) cents	HK1.67 cents	HK(0.45) cents

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2019

	Attributable to equity holders of the Company													
	Reserves											Non-controlling interests	Total	
	Share capital	Share premium	Special reserve	Capital reserve	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 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>2018</b>														
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
Loss for the period and total comprehensive loss for the period	-	-	-	-	(5,826)	-	-	-	-	(8,802)	(14,628)	(14,628)	(109)	(14,737)
At 30 September 2018	77,607	948,417	10,084	(20,749)	(5,456)	-	8,731	60,928	-	(196,241)	805,714	883,321	(1,289)	882,032
<b>2019</b>														
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	-	-	-	-	(5,284)	-	-	-	-	32,408	27,124	27,124	(334)	26,790
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,890)	(4,890)
Equity-settled share-based payment	-	-	-	-	-	4,103	-	-	-	-	4,103	4,103	-	4,103
At 30 September 2019	77,607	948,417	10,034	(20,749)	(10,575)	8,035	8,731	60,928	(19,067)	(259,861)	725,893	803,500	(3,976)	799,524

## Notes:

- The special reserve represents the difference between the nominal amount of shares and share premium of the 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 forms 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.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The Company's shares are listed on the GEM. The registered office of the Company is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 businesses, 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 consolidated financial statements have been prepared in accordance with all applicable accounting principles generally accepted in Hong Kong, Hong Kong Accounting Standards and Interpretations and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Chapter 18 of the GEM Listing Rules. These condensed consolidated financial statements also comply with the applicable disclosure requirements under the GEM Listing Rules.

These condensed consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the preparation of 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>
<b>Net assets disposed of:</b>	
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
<b>Consideration:</b>	
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:	
	<hr/> <i>HK\$'000</i>
Cash consideration	70,000
Cash and cash equivalents disposed of	(172)
	<hr/> <b>Net inflow of cash and cash equivalents</b>
	69,828
<b>Gain on disposal of subsidiaries:</b>	
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		Nine months ended	
	30 September		30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Entertainment	32,991	33,889	123,606	152,694
Sports	922	4,469	36,208	41,271
Theme Park	1,189	4,925	9,633	17,330
Total revenue	35,102	43,283	169,447	211,295

#### 5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (30 September 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 period based on existing legislation, interpretations and practices in respect thereof.

	Three months ended		Nine months ended	
	30 September		30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current				
– Hong Kong	(1,728)	1,799	5,478	5,573
– PRC	(1,386)	463	379	4,656
Deferred tax	(251)	(165)	(753)	(729)
	(3,365)	2,097	5,104	9,500

#### 6. DIVIDENDS

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: Nil).

## 7. 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 September		Nine months ended 30 September	
	2019	2018	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss)/profit attributable to equity holders of the Company	(17,750)	(16,175)	32,408	(8,802)

  

	Number of shares		Number of shares	
	2019	2018	2019	2018
Shares				
Weighted average number of ordinary shares in issue during the period	1,940,176,170	1,940,176,170	1,940,176,170	1,940,176,170
Basic earnings per share	HK(0.91) cents	HK(0.83) cents	HK1.67 cents	HK(0.45) cents

**(b) Diluted earnings per share**

	Three months ended 30 September		Nine months ended 30 September	
	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	<b>(17,750)</b>	(16,175)	<b>32,408</b>	(8,802)

  

	Number of shares		Number of shares	
	2019	2018	2019	2018
Shares				
Weighted average number of ordinary shares in issue during the period	<b>1,940,176,170</b>	1,940,176,170	<b>1,940,176,170</b>	1,940,176,170
Effect of dilutive potential ordinary shares:				
Convertible bonds	-	-	-	-
Options	-	-	-	-
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b>1,940,176,170</b>	1,940,176,170	<b>1,940,176,170</b>	1,940,176,170
Diluted earnings per share	<b>HK(0.91) cents</b>	HK(0.83) cents	<b>HK1.67 cents</b>	HK(0.45) cents



## 8. 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 CB 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 after 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.

## 9. EVENTS AFTER REPORTING PERIOD

There have been no material subsequent events from 30 September 2019 up to the date of this report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the nine months ended 30 September 2019, the Group recorded revenue of approximately HK\$169,447,000 (nine months ended 30 September 2018: approximately HK\$211,295,000) and profit attributable to equity holders of the Company of approximately HK\$32,408,000 (nine months ended 30 September 2018: loss attributable to equity holders of the Company of approximately HK\$8,802,000). The business of the Group includes the sports, entertainment and theme park segments.

### I. Sports Segment

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

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.

During the nine months ended 30 September 2019, the sports segment recorded revenue of approximately HK\$36,208,000 (nine months ended 30 September 2018: approximately HK\$41,271,000). The decrease in revenue from the sports segment is primarily attributable to the decrease in revenue from sale of sports licenses during the reporting period.



## 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 nine months ended 30 September 2019, the entertainment segment recorded revenue of approximately HK\$123,606,000 (nine months ended 30 September 2018: approximately HK\$152,694,000). The decrease in revenue is primarily attributable to the decrease in the sale of television and movie content due to poor market sentiment and cautious spending in the entertainment industry resulting from recent protests and political unrest in Hong Kong.

## 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 (together the "Dream World Group"). On 14 January 2016, the Company completed the acquisition of Dream World which became a wholly-owned subsidiary of the Company.

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.

For the nine months ended 30 September 2019, the theme park segment recorded revenue of approximately HK\$9,633,000 (nine months ended 30 September 2018: approximately HK\$17,330,000). The decrease in revenue is primarily attributable to the decrease in consultancy revenue.

## Outlook

The Group will continue to expand the E-sports business. However, the Group will look to sell less cost-effective assets and focus 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 be 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 nine months ended 30 September 2019, the Group recorded revenue of approximately HK\$169,447,000 as compared to approximately HK\$211,295,000 during the same period in 2018. The decrease in revenue is primarily due to poor market sentiment and cautious spending in the entertainment industry.

The Group reported net profit attributable to equity holders of the Company of approximately HK\$32,408,000 for the nine months ended 30 September 2019, compared to net loss attributable to equity holders of the Company of approximately HK\$8,802,000 during the corresponding period in 2018. The increase was due to the one-time gain on disposal of subsidiaries.

Administrative and other expenses for the nine months ended 30 September 2019 amounted to approximately HK\$57,414,000 (nine months ended 30 September 2018: approximately HK\$64,158,000), representing a decrease of approximately 11% compared with the same period of last year. The decrease is primarily due to the decrease in selling and distribution expenses as a result of the decrease in revenue.



## **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”) under which Summer Eagle agreed to sell and Richfield International 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 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”) under which Summer Eagle 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, under which the parties 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 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 nine month ended 30 September 2019 and thereafter to the date of this report.

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

As at 30 September 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares of the Company (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 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 Shares and underlying Shares

Name of director/ chief executive	Nature of interests	Number of ordinary shares in the Company held	Approximate percentage of shareholding in the Company <i>(Note 4)</i>
Mr. Hsu Tung Chi <i>(Note 1)</i>	Beneficial owner and interest of controlled corporation	386,785,782 (L)	19.93%
Ms. Zhang Jing <i>(Note 2)</i>	Beneficial owner and interest of controlled corporation	81,253,659 (L)	4.19%
Mr. Lai Kwok Fai, Franki <i>(Note 3)</i>	Beneficial owner and interest of controlled corporation	54,129,778 (L)	2.79%

*(L)* denotes long position



*Note:*

1. Among the 386,785,782 shares held by Mr. Hsu Tung Chi (“Mr. Hsu”), 368,539,559 shares are held directly, and 18,246,223 shares are held through his wholly-owned corporation, Daily Technology Company Limited (“Daily Technology”). Accordingly, Mr. Hsu is deemed to be interested in the shares held by Daily Technology under the SFO.
2. Among the 81,253,659 shares held by Ms. Zhang Jing (“Ms. Zhang”), 53,853,659 shares are held directly, and 27,400,000 shares are held through her wholly-owned corporation, Crown Smart Investment Limited (“Crown Smart”). Accordingly, Ms. Zhang is deemed to be interested in the shares held by Crown Smart under the SFO.
3. Among the 54,129,778 shares held by Mr. Lai Kwok Fai, Franki (“Mr. Lai”), 960,000 shares are held directly, and 22,669,778 shares are held through his wholly-owned corporation, Earn Wise Limited (“Earn Wise”). Accordingly, Mr. Lai is deemed to be interested in the shares held by Earn Wise under the SFO.

Earn Wise holds convertible bonds in the principal amount of HK\$14,640,000 convertible to 30,500,000 shares 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 underlying the convertible bonds held by Earn Wise.

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

(L) denotes long position

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. Accordingly, Mr. Lai is deemed to be interested in 30,500,000 underlying shares of the Company under the SFO.
2. Based on 1,940,176,170 shares of the Company in issue as at 30 September 2019.

Save as disclosed above, as at 30 September 2019, none of the Directors nor 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 September 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 September 2019			
<b>Directors</b>								
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 (Note 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 the Group (including nominees and/or trustees of any employee benefit trusts established for them) or their associates as the Board determines.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 30 September 2019, the following substantial shareholders and other persons (not being Directors 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 Shares

Name of substantial shareholder	Nature of interests	Number of Shares	Approximate percentage of shareholding in the Company (Note 4)
Ms. Chuang Meng Hua (Note 1)	Interest of a spouse	386,785,782 (L)	19.93%
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 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. 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. 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 September 2019.

Save as disclosed above, as at 30 September 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 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, the controlling shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective close associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete either directly or indirectly with the business of the Group, or has any other conflict of interests with the Group which would require disclosure under Rule 11.04 of the GEM Listing Rules during the nine months ended 30 September 2019.

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

During the nine months ended 30 September 2019, the Company repurchased 1,150,000 shares of its own ordinary shares through the Stock Exchange at total consideration of approximately HK\$155,510. 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 nine months ended 30 September 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 nine months ended 30 September 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 September 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 15 August 2019 and 31 October 2019. The Company entered into subscription agreements with FortuneHill Enterprise Limited ("Subscriber I"), Baosteel Engineering International Fund Corporation Limited ("Subscriber II") and Willcon Worldwide Limited ("Subscriber III"), (collectively, the "Subscribers"), pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for the subscription shares comprising an aggregate of 380,000,000 new Shares at the subscription price of HK\$0.128 per subscription share (the "Subscription Price").



The conditions precedent set out in the subscription agreement entered into between the Company and Subscriber III (“Subscription Agreement III”) have been fulfilled and the completion in respect of the Subscription Agreement III took place on 31 October 2019 (the “Partial Completion”). An aggregate of 80,000,000 Subscription Shares have been allotted and issued by the Company to Subscriber III at the Subscription Price. Following the Partial Completion, the net proceeds raised from the new Share subscription pursuant to the Subscription Agreement III are approximately HK\$10.2 million. As additional time is required to satisfy the conditions precedent set out in the subscription agreements entered into between the Company and Subscriber I and between the Company and Subscriber II, on 31 October 2019 (after trading hours), the Company entered into supplemental agreements with Subscriber I and Subscriber II (which, by a Certificate of Change of Name dated 15 August 2019 issued by the Companies Registry, had changed its name to Baosteel International Engineering Corporation Limited) respectively to extend the long stop date from 31 October 2019 to 29 November 2019 (or such later date as the Company and the Subscribers may agree in writing).

Save as disclosed above, there has no significant events after the reporting period up 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 annual, interim reports and quarterly reports. As at 30 September 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 quarterly results for the nine months ended 30 September 2019 have not been audited by the Company's independent auditors, but have 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.

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. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin.

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

Hong Kong, 14 November 2019