



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
2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher 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 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 Sheng (*Chairman*)

Hsu Tung Chi (*Chief Executive Officer*)

Pang Hong Tao

(resigned on 31 May 2016)

Chang Ching Lien

(re-designated from independent non-executive director on 13 April 2016)

Zhang Jing

(appointed on 31 May 2016)

Lai Kwok Fai, Franki

(appointed on 22 July 2016)

Independent Non-executive Directors

Kwok Chi Sun, Vincent

Wong Tak Shing

Gou Yanlin

(appointed on 13 April 2016)

Chang Ching Lien (re-designated to executive director on 13 April 2016)

AUDIT COMMITTEE

Kwok Chi Sun, Vincent

Wong Tak Shing

Gou Yanlin

(appointed on 13 April 2016)

Chang Ching Lien

(resigned on 13 April 2016)

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent

Hsu Tung Chi

Gou Yanlin

(appointed on 13 April 2016)

Chang Ching Lien

(resigned on 13 April 2016)

NOMINATION COMMITTEE

Kwok Chi Sun, Vincent

Hsu Tung Chi

Wong Tak Shing

COMPANY SECRETARY

Chan Kin Ho, Philip

COMPLIANCE OFFICER

Hsu Tung Chi

AUTHORISED REPRESENTATIVES

Hsu Tung Chi

Chan Kin Ho, Philip

AUDITOR

Mazars CPA Limited

Certified Public Accountants

LEGAL ADVISER

Phillips Solicitors

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2801A, Tower 1

Lippo Centre

89 Queensway

Hong Kong

SHARE REGISTRAR

Tricor Standard Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.cdculture.com

STOCK CODE

8175

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") is pleased to present an unaudited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the three months and nine months ended 30 September 2016 together with the comparative unaudited figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Turnover	4	53,982	18,250	168,519	68,462
Cost of services rendered and cost of good sold		(23,065)	(2,588)	(78,087)	(17,985)
Gross profit		30,917	15,662	90,432	50,477
Other income		131	-	426	-
Administrative and other expenses		(11,140)	(6,165)	(33,195)	(19,241)
Finance costs		(114)	(3)	(246)	(4)
Profit before taxation		19,794	9,494	57,417	31,232
Income tax expense	5	(4,634)	(2,178)	(13,307)	(7,330)
Profit for the period		15,160	7,316	44,110	23,902

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Other comprehensive income for the period					
Currency translation differences		(440)	(3,616)	(2,068)	(3,357)
Total comprehensive income for the period		14,720	3,700	42,042	20,545
Profit attributable to:					
– Equity holders of the Company		13,678	5,845	38,683	20,655
– Non-controlling interest		1,482	1,471	5,427	3,247
		15,160	7,316	44,110	23,902
Total comprehensive income attributable to:					
– Equity holders of the Company		13,354	3,237	36,661	18,228
– Non-controlling interest		1,366	463	5,381	2,317
		14,720	3,700	42,042	20,545
Dividends	6	–	–	–	–
Earnings per share	7		(Adjusted)		(Adjusted)
– Basic		HK0.79 cents	HK0.60 cents	HK2.50 cents	HK2.20 cents
– Diluted		HK0.79 cents	HK0.59 cents	HK2.50 cents	HK2.15 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2016

	Attributable to equity holders of the Company												
	Reserves											Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Capital reserve	Warrant reserve	Foreign currency transition reserve	Share option reserve	Convertible bonds 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	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
2015													
At 1 January 2015	36,398	508,587	10,084	(20,749)	276	(41)	7,782	-	(205,927)	300,012	336,410	21,274	357,684
Profit for the period and total comprehensive income for the period	-	-	-	-	-	(2,424)	-	-	20,655	18,231	18,231	2,317	20,548
Transactions with equity holders													
Exercise of options	1,650	23,348	-	-	-	-	(4,316)	-	-	19,032	20,682	-	20,682
Exercise of warrants	1,378	19,424	-	-	(138)	-	-	-	-	19,286	20,664	-	20,664
Issue of share option	-	-	-	-	-	-	3,646	-	-	3,646	3,646	-	3,646
Non-controlling interest arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,265	1,265
At 30 September 2015	39,426	551,359	10,084	(20,749)	138	(2,465)	7,112	-	(185,272)	360,207	399,633	24,856	424,489
2016													
At 1 January 2016	46,726	599,286	10,084	(20,749)	138	(2,340)	6,360	-	(181,970)	410,809	457,535	26,290	483,825
Profit for the period and total comprehensive income for the period	-	-	-	-	-	(2,068)	-	-	38,683	36,615	36,615	5,381	41,996
Transactions with equity holders													
Issue of shares upon acquisition	7,271	71,753	-	-	-	-	-	-	-	71,753	79,024	-	79,024
Issue of shares upon placing of convertible bonds upon acquisition	12,500	132,988	-	-	-	-	-	-	-	132,988	145,488	-	145,488
Conversion of convertible bonds	8,760	96,600	-	-	-	-	-	120,000	(105,360)	120,000	120,000	-	120,000
Equity-settled share-based payment	-	-	-	-	-	-	1,181	-	-	1,181	1,181	-	1,181
Non-controlling interest arising from incorporation of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	4,222	4,222
At 30 September 2016	72,257	900,627	10,084	(20,749)	138	(4,408)	7,541	14,640	(143,287)	764,586	839,843	35,893	875,736

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 taken place in 2003.
- The capital reserve represents the share of net liabilities of additional interest in subsidiaries acquired without change in control.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Digital Culture (Group) Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is located at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The Company and its subsidiaries (together, the “Group”) is principally engaged in the business of providing copyright content to end-users through well-established platforms, operating E-sports and webcast celebrity businesses, operating film-based cultural parks and tourism focused projects and providing marketing and promotional services for professional athletes.

2. STATEMENT OF COMPLIANCE

These condensed financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2015 financial statements. 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. ACQUISITION OF SUBSIDIARIES

Dream World Holdings Limited

On 14 January 2016, the Company completed the acquisition of Dream World Holdings Limited and its subsidiaries ("Dream World"). Upon completion, Dream World became a wholly-owned subsidiary of the Company. The aggregate consideration of the acquisition shall be up to HK\$578,399,000 to be paid by the Company to the vendors by (i) cash payment of HK\$150,000,000; (ii) the issue of consideration shares for a total amount of HK\$68,399,000; and (iii) subject to the fulfillment of profit guarantee requirements and progress of stage of construction of the projects, the issue of convertible bonds in the principal amount of up to HK\$360,000,000 by the Company. Dream World is principally engaged in the business of operating film-based cultural and tourism focused projects. The purpose of this acquisition was to diversify and enhance the Company's business segments.

The following summarises the consideration paid and the amounts of the assets acquired and liabilities assumed at the date of acquisition:

	(unaudited) HK\$'000
Consideration:	
Cash paid	150,000
Shares issued, at fair value	68,399
Contingent consideration – Convertible bonds	360,000
	578,399
	(unaudited) HK\$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	5
Interest in associate	1,791
Accounts and other receivables	15,449
Financial assets at fair value through profit or loss	7,770
Bank balances and cash	9,665
Accounts and other payables	(3,723)
Tax payable	(5,960)
Total identifiable net assets	24,997
Goodwill arising on acquisition	553,402
	578,399

(unaudited)
HK\$'000

Net cash outflow on acquisition of subsidiaries:

Net cash acquired from subsidiaries	9,665
Consideration paid in cash	(150,000)
	<hr/>
	(140,335)

The Company shall pay HK\$578,399,000 in cash, shares and convertible bonds as consideration for the acquisition of Dream World. The transaction costs of approximately HK\$6,088,000 have been excluded from the consideration transferred and included in administrative and other expenses in the consolidated statement of comprehensive income.

The goodwill arising from the acquisition is attributable to the synergies and economies of scale expected to arise from the business combination. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since the acquisition, the acquired subsidiaries have contributed approximately HK\$37,695,000 in revenue and HK\$22,489,000 in profit before taxation to the Group.

If the business combinations effected during the year had taken place at the beginning of the year, the revenue and profit for the Group would have been approximately HK\$168,519,000 and HK\$38,683,000, respectively.

Jieyi Wenchuang Company Limited

On 1 June 2016, the Company completed the acquisition of Jieyi Wenchuang Company Limited ("Jieyi Wenchuang"). Jieyi Wenchuang is a company incorporated in Taiwan with limited liability and is principally engaged in the business of training, nurturing and managing E-sports teams and E-sport broadcasters. Upon completion, Jieyi Wenchuang became a wholly-owned subsidiary of the Company. The aggregate cash consideration of the acquisition was NT\$1,151,000 (approximately HK\$276,000). The purpose of this acquisition was to diversify and enhance the Company's business segments. Jieyi Wenchuang is currently operating an E-sports team called "J Team", which holds the exclusive right to use the image and name of Mr. Jay Chou in the E-sports field.

The following summarises the consideration paid and the amounts of the assets acquired and liabilities assumed at the date of acquisition:

(unaudited)
HK\$'000

Consideration:

Cash paid	276
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(unaudited)
HK\$'000

Recognised amounts of identifiable assets acquired and liabilities assumed:

Property, plant and equipment	19
Accounts and other receivables	1,627
Bank balances and cash	108
Accounts and other payables	(2,040)

Total identifiable net assets	(286)
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Goodwill arising on acquisition	562
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276

(unaudited)
HK\$'000

Net cash outflow on acquisition of subsidiaries:

Net cash acquired from subsidiaries	108
Consideration paid in cash	(276)

(168)

The Company shall pay HK\$276,000 in cash as consideration for the acquisition of Jieyi Wenchuang. The transaction costs of approximately HK\$196,000 have been excluded from the consideration transferred and included in administrative and other expenses in the consolidated statement of comprehensive income.

The goodwill arising from the acquisition is attributable to the synergies and economies of scale expected to arise from the business combination. None of the goodwill recognized is expected to be deductible for income tax purpose.

Since the acquisition, Jieyi Wenchuang have contributed approximately HK\$2,888,000 in revenue and HK\$26,000 in profit before taxation into the Group.

If the business combinations effected during the year had taken place at the beginning of the year, the revenue and profit for the Group would have been approximately HK\$168,572,000 and HK\$39,210,000, respectively.

Shanghai Xin Ke Culture Media Company Limited

On 12 July 2016, the Group entered into a sale and purchase agreement (as amended and supplemented by a supplemental agreement dated 19 July 2016) with Liu Yixin (劉譚心) (the "Vendor") to acquire 100% of the equity interest in Shanghai Xin Ke Culture Media Company Limited (上海歆珂文化傳媒有限公司) ("Xin Ke") at a cash consideration of HK\$35,000,000. Upon completion, Xin Ke will become a wholly owned subsidiary of the Company. Xin Ke is principally engaged in the business of entertainment project planning, celebrity management and production of online streaming content. The purpose of this acquisition was to diversify and enhance the Group's business segments.

The following summarises the consideration paid and the amounts of the assets acquired and liabilities assumed at the date of acquisition:

	(unaudited) HK\$'000
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Consideration:	
Cash paid	35,000
<hr/>	
	(unaudited) HK\$'000
<hr/>	
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Accounts and other receivables	978
Bank balances and cash	45
Accounts and other payables	(924)
<hr/>	
Total identifiable net assets	99
Goodwill arising on acquisition	34,901
<hr/>	
	35,000
<hr/>	
	(unaudited) HK\$'000
<hr/>	
Net cash outflow on acquisition of subsidiaries:	
Net cash acquired from subsidiaries	45
Consideration paid in cash	(35,000)
<hr/>	
	(34,955)
<hr/>	

The Company shall pay HK\$35,000,000 in cash, as consideration for the acquisition of Shanghai Xin Ke. The transaction costs of approximately HK\$396,000 have been excluded from the consideration transferred and included in administrative and other expenses in the consolidated statement of comprehensive income.

The goodwill arising from the acquisition is attributable to the synergies and economies of scale expected to arise from the business combination. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since the acquisition, the acquired subsidiaries have contributed approximately HK\$167,000 in revenue and HK\$106,000 in loss before taxation to the Group.

If the business combinations effected during the year had taken place at the beginning of the year, the revenue and profit for the Group would have been approximately HK\$169,584,000 and HK\$38,467,000, respectively.

4. TURNOVER

Turnover comprises revenues from the following business activities of the Group:

	Three months ended 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Entertainment	41,491	8,604	117,114	41,153
Sports	12,491	9,646	51,405	27,309
Total revenue	53,982	18,250	168,519	68,462

5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 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 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current				
– Hong Kong	2,785	1,433	9,377	4,088
– PRC	1,849	745	3,930	3,242
	4,634	2,178	13,307	7,330

6. DIVIDENDS

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2016 (2015: 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	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Profit attributable to equity holders of the Company	13,678	5,845	38,683	20,655
	Number of shares		Number of shares	
	2016	2015	2016	2015
Shares		(Adjusted)		(Adjusted)
Weighted average number of ordinary shares in issue during the period	1,737,603,830	982,183,446	1,547,865,047	937,950,288
Basic earnings per share	HK0.79 cents	HK0.60 cents	HK2.50 cents	HK2.20 cents

(b) Diluted earnings per share

	Three months ended 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Profit attributable to equity holders of the Company	13,678	5,845	38,683	20,655

	Number of shares		Number of shares	
	2016	2015 (Adjusted)	2016	2015 (Adjusted)
Shares				
Weighted average number of ordinary shares in issue during the period	1,737,602,830	982,183,446	1,547,865,047	937,950,288
Effect of dilutive potential ordinary shares:				
Warrants	–	–	–	5,352,107
Options	2,261,338	871,765	4,467,454	15,902,207
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,739,864,168	983,055,211	1,552,332,501	959,204,602
Diluted earnings per share	HK0.79 cents	HK0.59 cents	HK2.50 cents	HK2.15 cents

8. EVENTS AFTER REPORTING PERIOD

As at the date of this report, there were no significant events after reporting period which would have material effect to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the nine months ended 30 September 2016, the Group recorded a turnover of approximately HK\$168,519,000 (30 September 2015: HK\$68,462,000) and a profit attributable to equity holders of the Company of approximately HK\$38,683,000 (30 September 2015: HK\$20,655,000). The business includes both the Sports and Entertainment Segment.

I. Sports Segment

The Sports Segment includes the athlete management and Sports content licensing business.

During the nine months ended 30 September 2016, the Sports Segment recorded a turnover of approximately HK\$51,405,000 (30 September 2015: HK\$27,309,000). The increase in turnover from the Sports Segment is primarily attributable to increase revenue contribution from sale of new licenses held by Socle Limited (“Socle”).

The athlete management business is principally engaged in assisting professional athletes, such as Jeremy Lin (林書豪), an NBA player, with marketing and promotional activities worldwide. More specifically, the Group works with professional athletes in obtaining marketing contracts and sponsorships.

The Sports content licensing business is principally engaged in the licensing of sports content. The Group is one of the foremost providers of sports-related content in the PRC.

II. Entertainment Segment

The Entertainment Segment includes the music and movie/television content licensing business and investments in various entertainment projects such as movies, television and musical productions. It also includes the operations of a film based cultural park, celebrity E-sports teams and the live webcast agency business.

For the nine months ended 30 September 2016, the Entertainment Segment recorded a turnover of approximately HK\$117,114,000 (30 September 2015: approximately HK\$41,153,000). The increase in turnover is primarily attributable to consolidated results from Dream World due to the completion of its acquisition and improved operations from the sale of entertainment content.

On 1 June 2016, the Company completed the acquisition of Jieyi Wenchuang. Jieyi Wenchuang is principally engaged in the business of training, nurturing and managing E-sports teams and E-sport broadcasters. Upon completion, Jieyi Wenchuang became a wholly-owned subsidiary of the Company. Jieyi Wenchuang is currently operating an E-sports team called "J Team", which holds the exclusive right to use the image and name of Mr. Jay Chou in the E-sports field. J Team is currently one of the top tier League of Legends E-sports teams in Asia.

On 16 June 2016, the Company also obtained the exclusive right to use the name and endorsement of Jeremy Lin for the Company's Dota team. Subsequently on 9 September 2016, Beijing Orient Lixiang Culture Media Company Limited ("Orient Lixiang") (北京東方理想文化傳播有限公司), a wholly owned subsidiary of the Company and Hangzhou Wei Xi Culture Company Limited ("Wei Xi") (杭州維稀文化創意有限公司), an Independent Third Party established a joint venture, the principal business of which is the operations and management of an E-sports Team called "Team VGJ" with the endorsement of Jeremy Lin. The joint venture was owned as to 51% by Orient Lixiang and as to 49% by Wei Xi.

On 7 July 2016, Kunshan Jieyi Culture Communication Company Limited (“Kunshan Jieyi”), a wholly owned subsidiary of the Company, Yujia Yule Media Company Limited (“Yujia Yule”), an Independent Third Party and Summer Eagle Limited, a wholly owned subsidiary of the Company entered into an agreement for the formation of a joint venture (the “Joint Venture”) by Kunshan Jieyi and Yujia Yule. The principal business of the Joint Venture will be the live webcast agency business. Following the completion on 12 July 2016, the Joint Venture was owned as to 51% by Kunshan Jieyi and as to 49% by Yujia Yule, and became an indirect non-wholly owned subsidiary of the Company.

The Directors are of the view that the establishment of the Joint Venture with Yujia Yule can further develop the E-sports business of the Company. Together with the cooperation of Mr. Jay Chou (周杰倫先生) and Mr. Jeremy Lin, the Company can bring together online stars and its E-sports teams through the live webcast business of the Company. The Directors believe that the interaction between webcast celebrity anchors and the E-sports teams can effectively enhance the value of interactive entertainment in the E-sports field and create an intellectual properties output platform for celebrity.

On 12 July 2016, the Group entered into a sale and purchase agreement (as amended and supplemented by a supplemental agreement dated 19 July 2016) with the Vendor to acquire 100% of the equity interest in Xin Ke at a cash consideration of HK\$35,000,000. Upon completion, Xin Ke will become a wholly owned subsidiary of the Company. Xin Ke is principally engaged in the business of entertainment project planning, celebrity management and production of online streaming content. The Directors are of the view that the resources and expertise of Xin Ke will help develop the live webcast business of the Group.

Outlook

The Group will continue its efforts in further developing its businesses in China’s fast growing cultural, entertainment, and sports areas. The recent acquisitions along with the strong business relationships cultivated by the Group’s experienced management team will help the Group to grow and prosper in both new and existing businesses. The Group will focus on expanding and developing its operations in the E-sports and live webcast businesses.

FINANCIAL REVIEW

For the nine months ended 30 September 2016, the Group recorded a turnover of HK\$168,519,000 as compared to HK\$68,462,000 in the same period in 2015. The increase in turnover is primarily attributable to revenue contribution from Dream World and also stronger performance from the sports and entertainment businesses.

The Group reported a net profit attributable to equity holders of approximately HK\$38,683,000 for the nine months ended 30 September 2016, compared to a net profit of approximately HK\$20,655,000 in the corresponding period of last year. This increase is due to stronger performance from the entertainment segment along with consolidated results of Dream World.

Administrative and other expenses for the nine months ended 30 September 2016 amounted to approximately HK\$33,195,000 (30 September 2015: approximately HK\$19,241,000), representing an increase of approximately 73% compared with the same period last year. The increase is primarily due to costs associated with the operations of Dream World and professional fees from acquisitions.

MATERIAL ACQUISITIONS OR DISPOSAL

On 14 January 2016, the Company completed the acquisition of Dream World. Upon completion, Dream World became a wholly-owned subsidiary of the Company. The aggregate consideration of the acquisition shall be up to HK\$578,399,000 to be paid by the Company to the vendors by (i) cash payment of HK\$150,000,000; (ii) the issue of consideration shares for a total amount of HK\$68,399,000; and (iii) subject to the fulfillment of profit guarantee requirements and progress of stage of construction of the projects, the issue of convertible bonds in the principal amount of up to HK\$360,000,000 by the Company. Dream World is principally engaged in the business of operating film-based cultural and tourism focused projects. The purpose of this acquisition was to diversify and enhance the Company's business segments.

According to the audited accounts of Dream World, the relevant profit guarantee requirement for the financial year ended 31 December 2015 ("2015 Profit Guarantee Requirement") has been satisfied. Following the fulfillment of 2015 Profit Guarantee Requirement, on 4 July 2016, the Company issued convertible bonds in the principal amount of HK\$120,000,000 at the initial conversion price of HK\$0.48 per conversion share to the vendors and their nominees in accordance with the Acquisition Agreement. For more details, please refer to the Company's circular dated 28 October 2015.

On 26 April 2016, the Company has subscribed for a principal amount of HK\$15,000,000 of convertibles notes of Light Cycle Limited ("Light Cycle"). The convertible notes are convertible into approximately 7.42% equity interest in Light Cycle as enlarged by the conversion shares at the conversion price of \$93.5395 per share. Light Cycle is principally engaged in the operation of yoga and cycling studios in the PRC.

On 1 June 2016, the Company completed the acquisition of Jieyi Wenchuang, Jieyi Wenchuang is a company incorporated in Taiwan with limited liability and is principally engaged in the business of training, nurturing and managing E-sports teams and E-sport broadcasters. Upon completion, Jieyi Wenchuang became a wholly-owned subsidiary of the Company. The aggregate cash consideration of the acquisition was NT\$1,151,000 (approximately HK\$276,000). Jieyi Wenchuang is currently operating an E-sports team called "J Team", which holds the exclusive right to use the image and name of Mr. Jay Chou in the E-sports field.

On 7 July 2016, Kunshan Jieyi, a wholly owned subsidiary of the Company, Yujia Yule, an Independent Third Party, and Summer Eagle Limited, a wholly owned subsidiary of the Company entered into an agreement for the formation of the Joint Venture by Kunshan Jieyi and Yujia Yule. The Joint Venture will be principally engaged in the business of live webcast agency. Following the completion on 12 July 2016, the Joint Venture was owned as to 51% by Kunshan Jieyi and as to 49% by Yujia Yule, and became an indirect non-wholly owned subsidiary of the Company.

On 12 July 2016, the Group entered into a sale and purchase agreement (as amended and supplemented by a supplemental agreement dated 19 July 2016) with the Vendor to acquire 100% of the equity interest in Xin Ke at a cash consideration of HK\$35,000,000. The Vendor guarantees to the Group that the net profit of Xin Ke for the financial year ending 31 December 2016 should be not less than HK\$3,000,000. In the event that the profit guarantee is not met or satisfied, the Vendor shall compensate the Group in cash 2 times of the shortfall (the shortfall being the difference between the guaranteed profit and the actual profit). Xin Ke is principally engaged in the business of entertainment project planning, celebrity management and production of online streaming content. Upon completion, Xin Ke will become a wholly owned subsidiary of the Company.

On 9 September 2016, Orient Lixiang, a wholly owned subsidiary of the Company and Wei Xi, an Independent Third Party established a joint venture, the principal business of which is the operations and management of an E-sports Team called "Team VGJ" with the endorsement of Jeremy Lin. The joint venture was owned as to 51% by Orient Lixiang and as to 49% by Wei Xi.

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

As at 30 September 2016, 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 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

Name of director	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial	18,375,000 (L)	1.0%
Mr. Hsu Tung Chi (Note 1)	Beneficial Interest of controlled corporation	111,755,000 (L) 18,246,223 (L)	5.9% 1.0%
Daily Technology Company Limited (Note 1)	Beneficial	18,246,223 (L)	1.0%
Ms. Zhang Jing (Note 2)	Interest of controlled corporation	32,000,000 (L)	1.7%
Mr. Lai Kwok Fai, Franki (Note 3)	Beneficial Interest of controlled corporation	960,000 (L) 15,023,437 (L)	0.1% 0.8%

(L) denotes long position

Note:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 111,755,000 shares. Daily Technology Company Limited ("Daily Technology"), which is beneficially owned as to 100% by Mr. Hsu. Daily Technology, beneficially owns 18,246,223 shares. Under the SFO, Mr. Hsu is deemed to also be interested in 18,246,223 shares.
2. Crown Smart Investment Limited ("Crown Smart") beneficially owns 32,000,000 shares. The ultimate 100% beneficial owner of Crown Smart is Neutrino Plus Limited, and Ms. Zhang Jing ("Ms. Zhang") is one of beneficiary owner of Neutrino Plus Limited. Under the SFO, Ms. Zhang is deemed to also be interested in 32,000,000 shares.
3. Mr. Lai Kwok Fai, Franki ("Mr. Lai") beneficially owns 960,000 shares. Earn Wise Limited ("Earn Wise") is beneficially owned as to 100% by Mr. Lai. Earn Wise beneficially owns 15,023,437 shares. Under the SFO, Mr. Lai is deemed to also be interested in 15,023,437 shares.

(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
Mr. Lai Kwok Fai, Franki (Note)	Interest of controlled corporation	HK\$14,640,000	30,500,000 (L)	1.62%

Note:

Earn Wise is beneficially owned by 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 also be interest in 30,500,000 underlying shares.

(L) denotes long position

(iii) Interest in share options

Name of director	Nature of interests	Number of share options granted	Approximate percentage of interests
Mr. Hsu Tung Sheng	Beneficial	8,251,276 (L)	0.4%
Mr. Hsu Tung Chi	Beneficial	5,501,276 (L)	0.3%

(L) denotes long position

Save as disclosed above, as at 30 September 2016, 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. Details of the movements in the number of share options during the period under the Scheme are as follows:

Categories of grantees	As at	Exercised	Lapsed	Outstanding	Exercise price	Grant date	Exercisable period
	1 January 2016	during the period	during the period	at 30 September 2016			
Directors							
Mr. Hsu Tung Sheng	8,251,276	-	-	8,251,276	0.4572	10/06/2014	10/06/2014-09/06/2017
Mr. Hsu Tung Chi	5,501,276	-	-	5,501,276	0.4572	10/06/2014	10/06/2014-09/06/2017
Consultant							
Willing International Capital (Shanghai) Company Limited	5,501,276	-	-	5,501,276	0.4572	10/06/2014	10/06/2014-09/06/2017
Employees	22,008,932	-	-	22,008,932	0.4572	10/06/2014	10/06/2014-09/06/2017
	41,262,760	-	-	41,262,760			

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 30 September 2016, the following 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 and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Interest in Shares

Name of Substantial Shareholder	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Best Million Holdings Limited (Note 1)	Beneficial	114,816,405 (L)	6.1%
Ms. Ma Hsin-Ting (Note 1)	Interest of controlled corporation	114,816,405 (L)	6.1%
Ease Wing Limited (Note 2)	Beneficial	114,816,406 (L)	6.1%
Mr. Ho Chi Sing (Note 2)	Interest of controlled corporation	114,816,406 (L)	6.1%

Notes:

1. Best Million Holdings Limited (“Best Million”) is wholly and beneficially owned by Ms. Ma Hsin-Ting (“Ms. Ma”). Best Million beneficially owns 114,816,405 shares of the Company. Under the SFO, Ms. Ma is deemed to be interested in 114,816,405 shares held by Best Million.
2. 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.

Save as disclosed above, as at 30 September 2016, the directors of the Company 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 and section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

The Directors believe that none of the directors, the management shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company or any of its respective associates had an interest in a business which competes or may compete either directly or indirectly with the business of the Group as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the six months ended 30 September 2016.

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

During the period ended 30 September 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 Directors have confirmed their compliance with such code of conduct and the required standard of dealings regarding securities transactions during the nine months ended 30 September 2016.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles of the Code and complied with the code provisions set out in the Code for the period ended 30 September 2016, except for the deviations from code provisions A4.2 as detailed in the Corporate Governance Report that the Chairman is not subject to retirement by rotation.

Code provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Pursuant to the Bye-laws of the Company, any Director so appointed shall hold office only until the next following annual general meeting and so on from year to year until their places are filled. However, the Company believes that it is in the best interest of the Company's shareholders to transact this ordinary course of business in the annual general meeting and the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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 of the Company.

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 September 2016, the Audit Committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin, all of them 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 2016 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.

As at the date of this report, 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.

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

Hong Kong, 14 November 2016