



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
2018



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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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*)
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

Chan Kin Ho, Philip (resigned on 9 August 2018)
Tung Sze Ho, Dicky (appointed on 9 August 2018)

COMPLIANCE OFFICER

Hsu Tung Chi

AUTHORISED REPRESENTATIVES

Hsu Tung Chi
Chan Kin Ho, Philip (resigned on 9 August 2018)
Tung Sze Ho, Dicky (appointed on 9 August 2018)

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants
10/F, 8 Observatory Road
Tsim Sha Tsui
Kowloon
Hong Kong

HONG KONG LEGAL ADVISER

Guantao & Chow Solicitors and Notaries
Suites 1604-06, 16th Floor
ICBC Tower
3 Garden Road
Central
Hong Kong

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Ltd
Canon's Court
22 Victoria Street
Hamilton HM EX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong)
Limited
Nanyang Commercial Bank
Bank of Communication

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 2018 together with the restated comparative figures for the corresponding periods in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2018

	Note	Three months ended 30 June		Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Revenue	3	92,503	81,457	168,012	132,324
Cost of services rendered		(55,788)	(37,442)	(98,995)	(56,500)
Gross profit		36,715	44,015	69,017	75,824
Other income/(expense)		1,253	(353)	1,583	75
Administrative and other expenses		(21,575)	(23,799)	(38,445)	(38,942)
Finance costs		(9,209)	(1,106)	(17,363)	(1,337)
Fair value change on contingent consideration		-	(6,985)	-	(13,970)
Share of results of a joint venture		611	(617)	(13)	(735)
Profit before taxation	5	7,795	11,155	14,779	20,915
Income tax expense	6	(4,685)	(5,681)	(7,403)	(9,821)
Profit for the period		3,110	5,474	7,376	11,094

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and six months ended 30 June 2018

	Note	Three months ended 30 June		Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Other comprehensive income for the period					
Foreign currency translation differences		(2,699)	2,541	438	2,900
Total comprehensive income for the period		411	8,015	7,814	13,994
Profit attributable to:					
– Equity holders of the Company		3,068	5,594	7,373	11,225
– Non-controlling interests		42	(120)	3	(131)
		3,110	5,474	7,376	11,094
Total comprehensive income attributable to:					
– Equity holders of the Company		289	8,227	7,879	14,133
– Non-controlling interests		122	(212)	(65)	(139)
		411	8,015	7,814	13,994
Dividends	7	–	–	–	–
Earnings per share	8				
– Basic		0.16 cents	0.29 cents	0.38 cents	0.59 cents
– Diluted		0.16 cents	0.29 cents	0.38 cents	0.59 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Non-current assets		
	10,606	10,167
Property, plant and equipment		
	269,437	276,292
Intangible assets		
	659,632	659,632
Goodwill		
	2,316	2,347
Interest in an associate		
	5,247	5,298
Interest in joint ventures		
	79,006	79,573
Available-for-sale financial assets		
	3,139	3,139
Deposits for acquisition of available-for-sale financial assets		
	12,129	12,129
Derivative financial assets		
	4,719	2,755
Deposit for acquisition of a subsidiary/joint venture		
	3,309	2,824
Loans to and due from joint ventures		
	15,783	15,783
Prepayments		
	1,065,323	1,069,939
Current assets		
	104,703	140,819
Inventories		
	329,872	223,654
Accounts and other receivables	9	
	144,041	268,969
Bank balances and cash		
	578,616	633,442
Current liabilities		
	56,377	124,758
Accounts and other payables	10	
	23,070	19,911
Interest-bearing borrowings		
	18,214	20,514
Tax payable		
	97,661	165,183
	480,955	468,259
Net current assets		
	1,546,278	1,538,198
Total assets less current liabilities		

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

	Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Non current liabilities			
Convertible bonds	11	380,641	381,500
Contingent consideration – convertible bonds		205,915	205,915
Deferred tax liabilities		55,139	54,014
		641,695	641,429
NET ASSETS		904,583	896,769
Capital and reserves			
Share capital		77,607	77,607
Reserves		828,221	820,342
Equity attributable to equity holders of the Company		905,828	897,949
Non-controlling interests		(1,245)	(1,180)
TOTAL EQUITY		904,583	896,769

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2018

	Attributable to equity holders of the Company																								
	Reserves												Non-controlling interests	Total											
	Share capital	Share premium	Special reserve	Capital reserves	Warrant reserve	Foreign currency translation reserve	Share option reserve	Statutory reserve	Convertible bonds reserve	Accumulated losses	Total reserves	Subtotal			HK\$'000										
																HK\$'000									
(Note a)																(Note b)	(Note c)								
2017																									
At 1 January 2017 (restated)	75,277	921,248	10,084	(20,749)	138	(7,970)	7,541	5,251	9,056	(182,118)	742,481	817,758	24,336	842,094											
Profit for the period and total comprehensive income for the period	-	-	-	-	-	2,908	-	-	-	11,225	14,133	14,133	(139)	13,994											
Transaction with equity holders																									
Share-based payment	1,130	11,869	-	-	-	-	-	-	-	-	11,869	12,999	-	12,999											
Issue of convertible bonds	-	-	-	-	-	-	-	-	51,872	-	51,872	51,872	-	51,872											
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	-	-	-	(32,437)	(32,437)	(32,437)	(25,563)	(58,000)											
Lapse of warrant	-	-	-	-	(138)	-	-	-	-	138	-	-	-	-											
Lapse of share option	-	-	-	-	-	-	(7,541)	-	-	7,541	-	-	-	-											
At 30 June 2017 (restated)	76,407	933,117	10,084	(20,749)	-	(5,062)	-	5,251	60,928	(195,651)	787,918	864,325	(1,366)	862,959											
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											

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 2018

	Six months ended 30 June 2018 (Unaudited) HK\$'000	Six months ended 30 June 2017 (Unaudited) HK\$'000
Net cash from/(used in) operating activities	(123,713)	79,319
Net cash used in investing activities	(6,513)	(156,323)
Net cash outflow before financing activities	(130,226)	(77,004)
Net cash from financing activities	1,795	421,881
Net increase (decrease) in cash and cash equivalents	(128,431)	344,877
Cash and cash equivalents at beginning of the period	268,969	48,058
Effect of exchange rate fluctuations, net	3,503	3,379
Cash and cash equivalents at end of the period	144,041	396,314

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT

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 GEM. 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") are 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 consolidated 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 consolidated interim financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). 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 audited consolidated financial statements for the year ended 31 December 2017. 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.

The comparative information for the six months ended 30 June 2017 presented in these condensed consolidated financial statements is restated.

3. REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Entertainment	69,180	54,121	118,805	77,967
Sports	17,122	20,678	36,802	35,678
Theme Park	6,201	6,658	12,405	18,679
Total revenue	92,503	81,457	168,012	132,324

4. 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

	2018 (Unaudited)				2017 (Unaudited) (restated)			
	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	118,805	36,802	12,405	168,012	77,967	35,678	18,679	132,324
Segment results								
Unallocated income				2				3
Unallocated expenses				(26,368)				(8,538)
Profit before taxation				14,779				20,915
Taxation				(7,403)				(9,821)
Profit for the period				7,376				11,094

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

4. 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 2018 (Unaudited)				31 December 2017 (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:	442,496	112,295	87,815	642,606	357,120	231,581	81,452	670,153
Goodwill	352,854	1,924	304,854	659,632	352,854	1,924	304,854	659,632
Intangible assets	100,083	-	169,354	269,437	106,938	-	169,354	276,292
Loans to and due from joint ventures	3,309	-	-	3,309	2,824	-	-	2,824
Interest in joint renatures	5,247	-	-	5,247	5,298	-	-	5,298
Interest in an associate	2,316	-	-	2,316	2,347	-	-	2,347
Segment assets	906,305	114,219	562,023	1,582,547	827,381	233,505	555,660	1,616,546
Unallocated assets				61,392				86,835
Consolidated total assets				1,643,939				1,703,381
Segment liabilities	46,339	40,078	592,549	678,966	112,602	26,940	600,589	740,031
Unallocated liabilities				60,390				66,481
Consolidated total liabilities				739,356				806,612

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.

4. SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

Six months ended 30 June

	2018 (Unaudited)				2017 (Unaudited) (restated)			
	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	(4,489)	-	-	(4,489)	(5,368)	(1,883)	(5,453)	(12,704)
Depreciation of property, plant and equipment	(386)	-	(4)	(390)	(334)	(44)	(3)	(381)
Capital expenditure	-	-	-	-	(11,147)	-	-	(11,147)

(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
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Audited) HK\$'000
Hong Kong	90,694	56,741	246,674	253,347
PRC	70,571	68,904	627,454	630,674
Taiwan	6,747	6,679	65,547	62,070
	168,012	132,324	939,675	946,091

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

5. PROFIT BEFORE TAXATION

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

	Three months ended		Six months ended	
	30 June		30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Amortisation of intangible assets	2,090	4,366	4,489	12,704
Depreciation	195	162	390	381
Impairment losses on intangible asset	–	6,142	–	6,142

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the three months and six months ended 30 June 2018 and 2017. 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 2018 and 2017 based on existing legislation, interpretations and practices in respect thereof.

	Three months ended		Six months ended	
	30 June		30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Current				
– Hong Kong	2,732	1,318	3,774	5,011
– PRC	2,517	5,030	4,193	6,159
Deferred tax	(564)	(667)	(564)	(1,349)
	4,685	5,681	7,403	9,821

7. DIVIDENDS

No dividends were paid, declared or proposed during the three months ended 30 June 2018 and 2017. The Directors of the Company do not recommend payment of interim dividend for the three months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

8. 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	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Profit attributable to equity holders of the Company	3,068	5,594	7,373	11,225

	Number of shares		Number of shares	
	2018	2017	2018	2017
Shares				
Weighted average number of ordinary shares in issue during the period	1,940,176,170	1,903,704,725	1,940,176,170	1,894,947,945
Basic earnings per share	HK0.16 cents	HK0.29 cents	HK0.38 cents	HK0.59 cents

8. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

	Three months ended 30 June		Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) (restated) HK\$'000
Profit attributable to equity holders of the Company	3,068	5,594	7,373	11,225
	Number of shares		Number of shares	
	2018	2017	2018	2017
Shares				
Weighted average number of ordinary shares in issue during the period	1,940,176,170	1,903,704,725	1,940,176,170	1,894,947,945
Effect of dilutive potential ordinary shares:				
Options	-	-	-	-
Warrants	-	-	-	-
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,940,176,170	1,903,704,725	1,940,176,170	1,894,947,945
Diluted earnings per share	HK0.16 cents	HK0.29 cents	HK0.38 cents	HK0.59 cents

9. ACCOUNTS AND OTHER RECEIVABLES

Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Accounts receivable		
From third parties	212,385	123,624
Other receivables		
Deposits, prepayments and other receivables	52,807	50,881
Prepayments to licensors and service providers	62,400	46,240
Due from directors of subsidiaries of the Company (i)	1,763	2,391
Due from Directors (i)	517	518
	117,487	100,030
	329,872	223,654

An ageing analysis of the accounts receivable is as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Current	100,521	59,053
Less than 1 month past due	30,465	31,695
1 month to 3 months past due	34,197	–
3 months to 12 months past due	47,202	32,638
Over 1 year past due	–	238
	111,864	64,571
	212,385	123,624

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.

10. ACCOUNTS AND OTHER PAYABLES

	Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Accounts payable			
Accounts payable	(i)	32,442	63,298
Other payables			
Accrued charges and other payables		20,889	55,087
Due to the Directors	(ii)	2,990	3,165
Due to a joint venture	(iii)	–	2,823
Due to directors of subsidiaries of the Company	(iv)	56	385
		23,935	61,460
		56,377	124,758

(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 a joint venture

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

(iv) 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.

11. 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.

12. 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 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within one year	5,642	6,068
In the second to fifth years inclusive	9,701	12,509
Over five years	–	–
	15,343	18,577

13. EVENTS AFTER REPORTING PERIOD

There has been no material subsequent events from 30 June 2018 up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2018, the Group recorded revenue of approximately HK\$168,012,000 (30 June 2017: approximately HK\$132,324,000) and a profit attributable to equity holders of the Company of approximately HK\$7,373,000 (30 June 2017: approximately HK\$11,225,000). 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 2018, the sports segment recorded revenues of approximately HK\$36,802,000 (30 June 2017: approximately HK\$35,678,000). The increase in revenue from the sports segment is primarily attributable to the increase 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 (“Far Glory”) and Orient Digital Entertainment Limited (“ODE”) 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 2018, the entertainment segment recorded revenues of approximately HK\$118,805,000 (30 June 2017: approximately HK\$77,967,000). The increase in revenue is primarily attributable to the increase in the sale of television and movie content and increased in revenue from the E-sports business.

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”). On 14 January 2016, the Company completed the acquisition of Dream World which became a wholly-owned subsidiary of the Company.

For the six months ended 30 June 2018, the theme park segment recorded revenues of approximately HK\$12,405,000 (30 June 2017: approximately HK\$18,679,000). 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 its efforts in further developing its businesses in China's fast growing cultural, entertainment and sports areas. The Group will focus on expanding and developing its operations in the E-sports and live web businesses.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group recorded revenue of approximately HK\$168,012,000 as compared to approximately HK\$132,324,000 in the same period in 2017. The increase in revenue is primarily attributable to the stronger performance from the entertainment businesses.

The Group reported a net profit attributable to equity holders of approximately HK\$7,373,000 for the six months ended 30 June 2018, compared to a net profit attributable to equity holders of approximately HK\$11,225,000 in the corresponding period of in 2017. This decrease is due to the lower gross margin of the licensing and sales of television and movie content in the entertainment segment.

Administrative and other expenses for the six months ended 30 June 2018 amounted to approximately HK\$38,445,000 (30 June 2017: approximately HK\$38,942,000), representing an decrease of approximately 1% compared with the same period of last year. The decrease is primarily due to the decrease in legal and professional fees, offset by the increase in total salary expense from the development of the E-sports teams.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had current assets of approximately HK\$578,616,000 (31 December 2017: approximately HK\$633,442,000) and current liabilities of approximately HK\$97,661,000 (31 December 2017: approximately HK\$165,183,000). The current assets were comprised mainly of cash and bank balances of approximately HK\$144,041,000 (31 December 2017: approximately HK\$268,969,000) together with accounts and other receivables of approximately HK\$329,872,000 (31 December 2017: approximately HK\$223,654,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK\$56,377,000 (31 December 2017: approximately HK\$124,758,000). The Group had approximately HK\$23,070,000 interest-bearing borrowings which is repayable within one year (31 December 2017: approximately HK\$19,911,000) and HK\$412,500,000 of convertible bonds at 30 June 2018 (31 December 2017: HK\$412,500,000).

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 2018, 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 2.6% (31 December 2017: 2.2%). As at 30 June 2018, total borrowings of the Group amounted to approximately HK\$23,070,000 (31 December 2017: approximately HK\$19,911,000).

CHARGES ON GROUP ASSETS

As at 30 June 2018, 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 2018, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 30 June 2018, the Group had 146 (2017: 150) 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

During the six months ended 30 June 2018, the Group did not have any significant investment held, material acquisitions or disposals of subsidiaries or associated companies.

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

As at 30 June 2018, 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 Sheng	Beneficial owner	18,375,000 (L)	0.95%
Mr. Hsu Tung Chi (Note 1)	Beneficial owner and interest of controlled corporation	380,145,782 (L)	19.59%
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 361,899,559 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 2018.

(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 2018.

(L) denotes long position

Save as disclosed above, as at 30 June 2018, 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. For the six months ended 30 June 2018, no share option was granted, exercised, expired or lapsed and there was no share options outstanding under the Scheme.

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

So far as is known to the Directors, as at 30 June 2018, 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	380,145,782 (L)	19.59%
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 2018.

Save as disclosed above, as at 30 June 2018, 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 2018.

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

During the six months ended 30 June 2018, the Company did not redeem any of its shares and neither the Company nor any of its subsidiaries have purchased or sold 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 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (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 six months ended 30 June 2018.

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.

COMPLIANCE WITH GEM LISTING RULES

Pursuant to Rules 18.03, 18.48A and 18.49 of the GEM Listing Rules, the Company must publish its annual results announcement and annual report and dispatch its annual report to the shareholders of the Company (the "Shareholders") not later than three months after the end of the respective financial year, i.e. on or before 31 March 2018 in respect of the year ended 31 December 2017. As additional time was required for the audit work of the financial information of the Group for the year ended 31 December 2017, the Company was unable to publish the financial results of the Group for the year ended 31 December 2017 (the "Annual Results") and to publish and dispatch the annual report of the Group for the year ended 31 December 2017 (the "Annual Report") to the Shareholders within the prescribed time in accordance with the GEM Listing Rules.

Pursuant to Rules 18.66, 18.67 and 18.79 of the GEM Listing Rules, the Company must publish its quarterly results announcement and publish and dispatch its quarterly report to Shareholders not later than 45 days after the end of the first quarter of each financial year, i.e. 15 May 2018 in respect of the first three months ended 31 March 2018. As the publication of the annual results for the financial year ended 31 December 2017 was delayed, the Company was unable to publish the first quarterly financial results for the three months ended 31 March 2018 (the "Quarterly Results") and publish and dispatch the first quarterly report of the Group for the three months ended 31 March 2018 (the "Quarterly Report") to the Shareholders within the prescribed time in accordance with the GEM Listing Rules.

The Company has published the annual results announcement for the year ended 31 December 2017 on 27 June 2018, and dispatched and published its annual report on 29 June 2018. The Company has published the quarterly results announcements for the three months ended 31 March 2018 on 29 June 2018, and published and dispatched its quarterly report on 29 June 2018.

The delay in the publication and where relevant, dispatch of the Annual Results, Annual Report, Quarterly Results and Quarterly Report constitute breaches of the aforesaid GEM Listing Rules.

EVENTS AFTER REPORTING PERIOD

Mr. Chan Kin Ho, Philip resigned as company secretary of the Company with effect from 9 August 2018 and Mr. Tung Sze Ho, Dicky has been appointed as new company secretary of the Company with effect from 9 August 2018. Except as mentioned above, there has been no material events since 31 March 2018 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 interim reports and quarterly reports. As at 30 June 2018, 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 2018 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.

BOARD OF DIRECTORS

As at the date of this report, the executive Directors are Mr. Hsu Tung Sheng, 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.

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

Hong Kong, 14 August 2018

As at the date of this report, the executive Directors are Mr. Hsu Tung Sheng, 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.