



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)



FIRST
QUARTERLY
REPORT
2019



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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 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

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

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 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Standard Chartered Bank
(Hong Kong) Limited
Nanyang Commercial Bank,
Limited
Bank of Communications Co., Ltd

WEBSITE ADDRESS

www.cdculture.com

STOCK CODE

08175

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to report the unaudited condensed consolidated financial result of the Company and its subsidiaries (together the "Group") for the three months ended 31 March 2019 together with the comparative figures for the corresponding period in 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	Note	Three months ended 31 March	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	4	68,551	75,509
Cost of services rendered		(42,658)	(43,207)
Gross profit		25,893	32,302
Gain on disposal of subsidiaries	3	60,532	–
Other income		1,181	330
Administrative and other expenses		(18,750)	(16,870)
Finance costs		(8,255)	(8,154)
Share of results of a joint venture		(797)	(624)
Profit before taxation		59,804	6,984
Income tax expense	5	(3,101)	(2,718)
Profit for the period		56,703	4,266

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	Note	Three months ended 31 March	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Other comprehensive income for the period			
Foreign currency translation differences		3,193	3,137
Total comprehensive income for the period		59,896	7,403
Profit attributable to:			
– Equity holders of the Company		56,832	4,305
– Non-controlling interests		(129)	(39)
		56,703	4,266
Total comprehensive income attributable to:			
– Equity holders of the Company		60,056	7,590
– Non-controlling interests		(160)	(187)
		59,896	7,403
Dividends	6	–	–
Earnings per share			
– Basic	7	HK2.93 cents	HK0.22 cents
– Diluted		HK2.33 cents	HK0.22 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Special reserve	Capital reserve	Foreign currency translation reserve	Share option reserve	Statutory reserve	Convertible bonds reserve	FVTOCI reserve	Accumulated losses	Total reserves	Subtotal	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	-	-	-	-	3,285	-	-	-	-	4,305	7,590	7,590	(187)	7,403
At 31 March 2018	77,607	948,417	10,084	(20,749)	3,655	-	8,731	60,928	-	(183,134)	827,932	905,539	(1,367)	904,172
2019														
At 1 January 2019	77,607	948,417	10,034	(20,749)	(5,291)	3,932	8,731	60,928	(19,067)	(292,269)	694,666	772,273	1,248	773,521
Profit for the period and total comprehensive income for the period	-	-	-	-	3,224	-	-	-	-	56,832	60,056	60,056	(160)	59,896
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,890)	(4,890)
Equity-settled share-based payment	-	-	-	-	-	1,400	-	-	-	-	1,400	1,400	-	1,400
At 31 March 2019	77,607	948,417	10,034	(20,749)	(2,067)	5,332	8,731	60,928	(19,067)	(235,437)	756,122	833,729	(3,802)	829,927

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 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 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands and continued in Bermuda as an exempted company with limited liability in accordance with the Companies Act 1981 (as amended) of Bermuda. The Company's shares are listed on GEM. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business is located at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

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

2. STATEMENT OF COMPLIANCE

These condensed financial information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These unaudited condensed consolidated financial statements also comply with the applicable disclosure requirements under the GEM Listing Rules.

These financial information have been prepared on a basis consistent with the accounting policies adopted in the 2018 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. DISPOSAL OF SUBSIDIARIES

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

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

Consideration:

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

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

	<i>HK\$'000</i>
<hr/>	
Cash consideration	70,000
Cash and cash equivalents disposed of	(172)
<hr/>	
Net inflow of cash and cash equivalents	69,828
<hr/>	
Gain on disposal of subsidiaries:	
Consideration received	70,000
Net assets disposed of	(14,358)
Non-controlling interests	4,890
<hr/>	
	60,532

4. REVENUE

Revenue comprises the following business activities of the Group:

	Three months ended 31 March	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Entertainment	44,362	44,145
Sports	19,871	19,680
Theme Park	4,318	11,684
Total revenue	68,551	75,509

5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong 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 31 March	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current		
– Hong Kong	2,857	1,042
– PRC	495	1,676
Deferred tax	(251)	–
	3,101	2,718

6. DIVIDENDS

The Board did not recommend the payment of any dividend for the three months ended 31 March 2019 (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 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	56,832	4,305
Shares		
Weighted average number of ordinary shares in issue during the period	1,940,176	1,940,176
Basic earnings per share	HK2.93 cents	HK0.22 cents

(b) Diluted earnings per share

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	56,832	4,305
Effect of dilutive potential shares: – Interest on Convertible bonds, net of tax	6,604	–
Earnings for the purpose of diluted earnings per share	63,436	4,305

	2019	2018
	No. of shares	No. of shares
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	1,940,176	1,940,176
Effect of dilutive potential shares: – Convertible bonds	780,500	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	2,720,676	1,940,176
Diluted earnings per share	HK2.33 cents	HK0.22 cents



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the three months ended 31 March 2019, the Group recorded revenue of approximately HK\$68,551,000 (2018: approximately HK\$75,509,000) and a profit attributable to shareholders of the Company of approximately HK\$56,832,000 (2018: approximately HK\$4,305,000). The business includes the sports, entertainment and theme park segments.

I. Sports Segment

The sports segment includes 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 three months ended 31 March 2019, the sports segment recorded revenue of approximately HK\$19,871,000 (2018: approximately HK\$19,680,000). The increase in revenue from the sports segment is primarily attributable to increased revenue from the 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 sales of sports content and is one of the foremost providers of sports and entertainment content in the PRC.

II. Entertainment Segment

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

For the three months ended 31 March 2019, the entertainment segment recorded revenue of approximately HK\$44,362,000 (2018: approximately HK\$44,145,000). The increase in revenue is primarily attributable to increased sales of television and movie content and increased 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 is operated by Dream World Holdings Limited ("Dream World") and its subsidiaries (the "Dream World Group").

For the three months ended 31 March 2019, the theme park segment recorded revenue of approximately HK\$4,318,000 (2018: approximately HK\$11,684,000). The decrease in revenue is primarily attributable to the decrease in consultancy revenue.

The 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 People's Republic of China (the "PRC").



Outlook

The Group will continue its efforts to further develop its businesses in the PRC's fast growing cultural, entertainment, and sports areas. The Group will focus on expanding and developing its operations in the E-sports businesses.

FINANCIAL REVIEW

For the three months ended 31 March 2019, the Group recorded a decrease in revenue to approximately HK\$68,551,000 (2018: approximately HK\$75,509,000). The decrease in revenue was primarily attributable to decreased revenue contribution from the theme park segment.

The Group's gross profit margin decreased from 42.8% for the three months ended 31 March 2018 to 37.8% for the three months ended 31 March 2019. The decrease was 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 three months ended 31 March 2019 amounted to approximately HK\$18,750,000 (2018: approximately HK\$16,870,000). The increase in administrative and other expenses was due to the increase in equity-settled share-based payment as a result of the granted of share options in November 2018.

The Group recorded approximately HK\$8,255,000 (2018: approximately HK\$8,154,000) in finance costs, which mainly represents the interests on convertible bonds issued in 2018.

The Group reported a net profit attributable to equity holders of approximately HK\$56,832,000 (2018: approximately HK\$4,305,000). The increase in profit attributable to equity holders was due to the one-time gain on disposal of subsidiaries.

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

As at 31 March 2019, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 (the "SFO")), which were (a) 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or (c) 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 or attributable number of shares held or short positions	Approximate percentage or attributable percentage of issued share capital (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	385,745,782 (L)	19.88%
Ms. Zhang Jing (Note 2)	Beneficial owner and interest of controlled corporation	81,253,659 (L)	4.19%
Mr. Lai Kwok Fai, Franki (Note 3)	Beneficial owner and interest of controlled corporation	54,129,778 (L)	2.79%

(L) denotes long position



Notes:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 367,499,559 shares of the Company. Daily Technology Company Limited ("Daily Technology") beneficially owns 18,246,223 shares of the Company, 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 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 of the Company. 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 also 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 31 March 2019.

(ii) Interest in underlying shares of the convertible bonds

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

Notes:

1. Earn Wise is beneficially owned as to 100% by Mr. Lai. The underlying shares represented the new shares to be issued upon full conversion of HK\$14,640,000 convertible bonds held by Earn Wise, at the initial conversion price of HK\$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interest in 30,500,000 underlying shares of the Company.
2. Based on 1,940,176,170 shares of the Company in issue as at 31 March 2019.

(L) denotes long position

Save as disclosed above, as at 31 March 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 year ended 31 March 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 2018				at 31 December 2018			
Directors								
Mr. Hsu Tung Sheng	-	16,000,000	-	-	16,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
Mr. Hsu Tung Chi	-	16,000,000	-	-	16,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
Employees (1)	-	108,000,000	-	-	108,000,000	0.23	16/11/2018	16/11/2018 – 15/11/2021
	-	140,000,000	-	-	140,000,000			

Notes:

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

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

So far as is known to the Directors, as at 31 March 2019, 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 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 shareholders	Nature of interests	Number of Shares interested	Approximate percentage or attributable percentage of issued share capital (Note 4)
Ms. Chuang Meng Hua (Note 1)	Interest of a spouse	385,745,782 (L)	19.88%
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:

- Ms. Chuang Meng Hua is the spouse of Mr. Hsu Tung Chi, therefore, pursuant to the SFO, she is deemed to be interested in all the shares of the Company in which Mr. Hsu is interested.
- 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 119,976,405 shares of the Company held by Best Million.
- 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 of the Company held by Ease Wing.
- Based on 1,940,176,170 shares of the Company in issue as at 31 March 2019.



Save as disclosed above, as at 31 March 2019, 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 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 shareholder (as defined in the GEM Listing Rules) of the Company or any of its 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 as defined in the GEM Listing Rules, 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 three months ended 31 March 2019 and thereafter to the date of this report.

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

During the year ended 31 March 2019 and thereafter to the date of this report, the Company repurchased 250,000 shares of its own ordinary shares through the Stock Exchange at total consideration of approximately HK\$42,000. Save as those disclosed above, neither the Company nor any of its subsidiaries 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 (the "Model Code"). Having made specific enquiry of all Directors, the Company has confirmed the Directors' compliance with the Model Code and the required standard of dealings regarding securities transactions during the three months ended 31 March 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.

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. The Company has applied the principles of the CG Code. The Directors consider that during the three months ended 31 March 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 Bye-laws of the Company, 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 31 March 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 are made to the announcements of the company dated 1 April 2019 and 30 April 2019. The Company and Hangzhou Liaison Interactive Information Technology Co., Limited* (杭州聯絡互動信息科技股份有限公司) (the "Bondholder") entered into a supplemental deed in relation to the amendments to certain terms of the convertible bonds issued by the Company on 19 June 2017. Saved as those disclosed above, there has been no material events since 31 March 2019 to the date of this report.

* For identification purpose only



MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

On 7 January 2019, Summer Eagle entered into an agreement with Hollyview International Limited (“Hollyview International”) pursuant to which Summer Eagle has agreed to sell and Hollyview International has agreed to purchase 100% equity interests in Digital Cultural and Creative Company Limited (“Digital Cultural”) for a consideration of HK\$80,000,000. The parties agreed to extend the long stop date to 31 May 2019, or such other date as may be agreed by the parties in writing. Details are set out in the Company’s announcement dated 25 April 2019. As at the date of this report, the disposal of 100% equity interests in Digital Cultural has not yet completed.

The Board is considering to utilize the net proceeds from the above two disposal transactions to invest in other profitable projects or fund the early redemption of the outstanding convertible bonds.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the three month ended 31 March 2019 and thereafter 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 and 5.29 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 quarterly reports. 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 three months ended 31 March 2019 has been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

DIVIDENDS

The Board did not recommend the payment of any dividend for the three months ended 31 March 2019 (2018: Nil).

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, 15 May 2019