

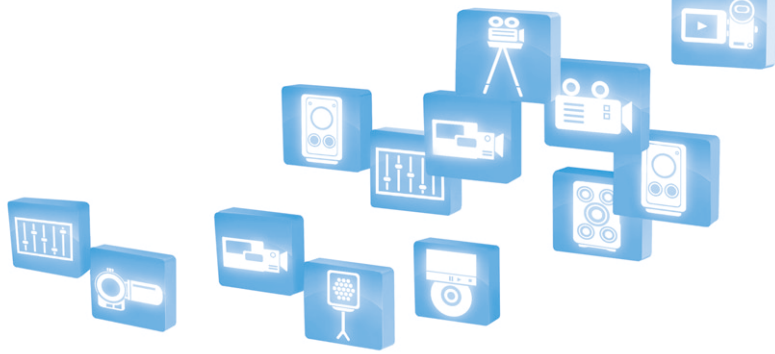
# CNCG

## CHINA NATIONAL CULTURE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 745)



INTERIM REPORT 2014



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## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

	Notes	Six months ended 30 September	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Continuing operations</b>			
Turnover	5	1,904	2,553
Cost of sales		(700)	(2,447)
Gross profit		1,204	106
Other revenue		–	23
Other income	5	22,266	26
Administrative expenses		(16,559)	(3,244)
Gain on disposal of subsidiaries		–	7,563
Impairment loss in respect of goodwill		–	(70,137)
Profit/(Loss) from operating activities	6	6,911	(65,663)
Finance costs	7	(12,270)	(12,987)
Loss before taxation		(5,359)	(78,650)
Taxation	8	–	–
Loss for the period from continuing operations		(5,359)	(78,650)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations		–	(11,974)
Loss for the period		(5,359)	(90,624)
Attributable to:			
– Owners of the Company		(5,359)	(90,624)
– Non-controlling interests		–	–
		(5,359)	(90,624)
Loss per share			
For loss for the period	10		
– Basic and diluted (HK cents)		(0.08)	(1.02)
For loss from continuing operations			
– Basic and diluted (HK cents)		(0.08)	(0.88)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(5,359)	(90,624)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent period:		
Exchange differences on translating foreign operations	77	(8)
Other comprehensive loss for the period, net of income tax	77	(8)
Total comprehensive loss for the period	(5,282)	(90,632)
Attributable to:		
– Owners of the Company	(5,282)	(90,632)
– Non-controlling interests	–	–
	(5,282)	(90,632)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2014

		At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	276	371
Goodwill		410,260	410,260
Available-for-sale financial asset		165	165
		<u>410,701</u>	<u>410,796</u>
<b>Current assets</b>			
Accounts receivable	12	–	1,460
Prepayments, deposits and other receivables		1,149	1,019
Cash and cash equivalents		93,947	2,183
		<u>95,096</u>	<u>4,662</u>
<b>Total assets</b>		<u><u>505,797</u></u>	<u><u>415,458</u></u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital			
– Ordinary shares	15	80,032	52,780
– Non-voting convertible preference shares	16	126,784	257,180
Reserves		249,614	(125,459)
		<u>456,430</u>	<u>184,501</u>
<b>Total equity</b>		<u><u>456,430</u></u>	<u><u>184,501</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 30 September 2014

		At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
		–	20,727
	14	31,466	193,779
		<u>31,466</u>	<u>214,506</u>
<b>Current liabilities</b>			
	13	735	35
		16,510	14,602
		656	1,814
		<u>17,901</u>	<u>16,451</u>
<b>Total liabilities</b>		<u>49,367</u>	<u>230,957</u>
<b>Total equity and liabilities</b>		<u>505,797</u>	<u>415,458</u>
<b>Net current assets/(liabilities)</b>		<u>77,195</u>	<u>(11,789)</u>
<b>Total assets less current liabilities</b>		<u>487,896</u>	<u>399,007</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Attributable to owners of the Company										
	Ordinary shares HK\$'000	Share premium HK\$'000	Non-voting convertible preference shares HK\$'000	Capital reserve HK\$'000	Exchange translation reserve HK\$'000	Other reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Subtotal HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2014 (audited)	52,780	362,154	257,180	9,800	(288)	-	-	(497,125)	184,501	-	184,501
Loss for the period	-	-	-	-	-	-	-	(5,359)	(5,359)	-	(5,359)
Other comprehensive income for the period	-	-	-	-	77	-	-	-	77	-	77
Total comprehensive income/(loss) for the period	-	-	-	-	77	-	-	(5,359)	(5,282)	-	(5,282)
Grant of share options	-	-	-	-	-	-	11,709	-	11,709	-	11,709
Issue of shares upon conversion of convertible preference shares	18,628	111,768	(130,396)	-	-	-	-	-	-	-	-
Issue of shares upon exercise of share options	1,534	67,692	-	-	-	-	(11,709)	-	57,517	-	57,517
Placing of shares	7,090	200,895	-	-	-	-	-	-	207,985	-	207,985
<b>At 30 September 2014 (unaudited)</b>	<b>80,032</b>	<b>742,509</b>	<b>126,784</b>	<b>9,800</b>	<b>(211)</b>	<b>-</b>	<b>-</b>	<b>(502,484)</b>	<b>456,430</b>	<b>-</b>	<b>456,430</b>
At 1 April 2013 (audited)	31,238	209,088	401,800	9,800	80	1,850	-	(295,274)	358,582	-	358,582
Loss for the period	-	-	-	-	-	-	-	(90,624)	(90,624)	-	(90,624)
Other comprehensive loss for the period	-	-	-	-	(8)	-	-	-	(8)	-	(8)
Total comprehensive loss for the period	-	-	-	-	(8)	-	-	(90,624)	(90,632)	-	(90,632)
New shares issued in the period	882	29,106	-	-	-	-	-	-	29,988	-	29,988
Conversion of convertible preference shares	3,330	19,980	(23,310)	-	-	-	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-	(1,850)	-	-	(1,850)	-	(1,850)
<b>At 30 September 2013 (unaudited)</b>	<b>35,450</b>	<b>258,174</b>	<b>378,490</b>	<b>9,800</b>	<b>72</b>	<b>-</b>	<b>-</b>	<b>(385,898)</b>	<b>296,088</b>	<b>-</b>	<b>296,088</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(2,579)	(5,910)
Net cash outflow from investing activities	–	(77)
Net cash inflow from financing activities	94,343	20,986
<b>Net increase in cash and cash equivalents</b>	<b>91,764</b>	<b>14,999</b>
Cash and cash equivalents at the beginning of the period	2,183	2,501
<b>Cash and cash equivalents at the end of the period Represented by cash and cash equivalents</b>	<b>93,947</b>	<b>17,500</b>



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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

### 1. Corporate information

China National Culture Group Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 27 August 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal place of business of the Company in Hong Kong is located at Room 901, Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong.

The Company and its subsidiaries (collectively the “Group”) were principally involved in providing the advertising media services.

### 2. Basis of preparation

The unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) for the six months ended 30 September 2014 (“Current Interim Period”) have been prepared in accordance with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The Interim Financial Statements should be read in conjunction with the annual report of the Company for the year ended 31 March 2014 (“Annual Report”), which has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The Interim Financial Statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

The preparation of the Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these Interim Financial Statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimate uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2014.

### 3. Principal accounting policies

(a) *Application of new and revised HKFRSs*

The following new and revised standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the annual period beginning 1 April 2014. A summary of the new HKFRSs are set out as below:

HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment entities
HK(IFRIC) Int – 21	Levies

The adoption of the above amendments and interpretation has had no material effect on the Interim Financial Statements of the Group for the current or prior accounting periods.

(b) *Standards and amendments in issue but not yet effective*

The following new HKFRSs have been issued but are not effective for the financial year beginning 1 April 2014 and have not been early adopted:

HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation <sup>5</sup>
HKAS 19 (Amendments)	Defined benefits plans: employee contributions <sup>1</sup>
HKAS 27 (Amendments)	Equity method in separate financial statements <sup>5</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations <sup>5</sup>
HKFRS 14	Regulatory deferral accounts <sup>4</sup>
HKFRS 15	Revenue from contracts with customers <sup>6</sup>
HKFRS (Amendments)	Annual improvements to HKFRSs 2010–2012 Cycle <sup>3</sup>
HKFRS (Amendments)	Annual improvements to HKFRSs 2011–2013 Cycle <sup>1</sup>
HKFRS (Amendments)	Annual improvements to HKFRSs 2012–2014 Cycle <sup>5</sup>

<sup>1</sup> effective for annual periods beginning on or after 1 July 2014.

<sup>2</sup> effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>4</sup> effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

<sup>5</sup> effective for annual periods beginning on or after 1 January 2016.

<sup>6</sup> effective for annual periods beginning on or after 1 January 2017.

#### 4. Segment information

The Group is engaged in a single reportable and operating segment, being the provision of advertising media services, after the disposal of the two businesses, namely building construction business, and renovation, repairs and maintenance business ("Discontinued Operations") during the six months ended 30 September 2013. Since the Group is engaged in a single reportable and operating segment, no segment information is provided.

##### *Geographical information*

The Group operations in two principal geographical areas – the PRC and Hong Kong. Almost all of the Group's turnover was generated in Hong Kong and substantially all of the non-current assets are located in Hong Kong as at the reporting date and the correspondent reporting date in previous year.

##### *Information about major customers*

During the six months ended 30 September 2014, approximately HK\$1,500,000 or 79% (2013: Nil) of the Group's revenue generated from three customers (2013: Nil). Each customer has individually accounted for over 10% of the Group's total revenue. No other single customer contributed 10% or more to the Group's revenue for the six months ended 30 September 2014 (2013: Nil).

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A (Note)	300	–
Customer B	450	–
Customer C	750	–

Note: No information on revenue for the six months ended 30 September 2013 is disclosed for this customer since it did not contribute 10% or more to the Group's revenue for the six months ended 30 September 2013.

5. **Turnover and other income**

An analysis of Group's turnover and other income from its continuing operations is as follows:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Continuing operations</b>		
<b>Turnover:</b>		
Advertising income	1,904	2,553
<b>Other income:</b>		
Gain on extinguishment of promissory notes financial liabilities	22,266	–
Others	–	26
	<u>22,266</u>	<u>26</u>

6. **Profit/(Loss) from operating activities**

The Group's profit/(loss) from operating activities of its continuing operations is arrived at after charging:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Continuing operations</b>		
Depreciation	95	85

7. **Finance costs**

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Continuing operations</b>		
Interest on other loan	432	–
Imputed interest on promissory notes	11,838	12,092
Interest on amount due to a shareholder	–	895
	<u>12,270</u>	<u>12,987</u>

8. **Taxation**

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the six months ended 30 September 2014 and 2013. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. **Dividends**

No dividend was paid, declared or proposed during the six months ended 30 September 2014 and 30 September 2013. The board of the Company (the "Board") do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2014 (30 September 2013: Nil).

10. **Loss per share**

*From continuing and discontinued operations*

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	5,359	90,624
	<hr/>	
	Six months ended 30 September	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares of the Company (the "Shares") for the purpose of basic and diluted loss per share	6,883,692	8,919,561
	<hr/>	

Diluted loss per share for the six months ended 30 September 2014 and 2013 were the same as basic loss per share as the potential ordinary share is anti-dilutive.

10. **Loss per share (continued)**

*From continuing operations*

The calculation of basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss figures are calculated as follows:		
Loss for the period attributable to owners of the Company	5,359	90,624
Less: Loss for the period from Discontinued Operations	–	(11,974)
	<hr/>	<hr/>
Loss for the purposes of basic and diluted loss per share from continuing operations	5,359	78,650
	<hr/> <hr/>	<hr/> <hr/>

The denominators used are the same as those detailed above for basic and diluted loss per share.

*From Discontinued Operations*

For the six months ended 30 September 2013, basic and diluted loss per share from Discontinued Operations is approximately HK0.14 cents per share, based on the loss for the period from Discontinued Operations of approximately HK\$11,974,000 and the denominators detailed above for both basic and diluted loss per share.

11. **Movements in property, plant and equipment**

During the six months ended 30 September 2014, the Group did not acquire any furniture, fixtures and office equipment (for the six months ended 30 September 2013: furniture, fixtures and office equipment of approximately HK\$69,000).

12. **Accounts receivable**

The following is an aged analysis of accounts receivable at the end of the reporting period:

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Within 30 days	–	150
31–90 days	–	–
91–180 days	–	240
Over 180 days	229	1,299
	<hr/>	<hr/>
	229	1,689
Less: impairment loss in respect of accounts receivable	(229)	(229)
	<hr/> <hr/>	<hr/> <hr/>
	–	1,460

The Group allows an average credit period of 180 days for advertising customers.

### 13. Accounts payable

An aged analysis of the accounts payable based on the invoice date, at the end of the reporting period, is as follows:

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Within 30 days	300	–
31–90 days	–	–
91–180 days	400	–
Over 180 days	35	35
	<hr/> <hr/> 735	<hr/> <hr/> 35

### 14. Promissory notes

During the year ended 31 March 2013, pursuant to a letter dated 28 March 2013, Win Today Limited ("Win Today"), agreed to extend the maturity date of its promissory note receivable ("Note #1") from 12 August 2013 to 12 August 2014 (the Maturity Date #1) and undertake not to request repayment of any amounts accruing to Win Today from Note #1 until the Maturity Date #1. The modification of the terms on Note #1 was accounted for as an extinguishment of the original Note #1 and the recognition of new Note #1. The carrying amount of the original Note #1 was derecognized and the fair value of the new Note #1 was determined by an independent valuer and recognized on 28 March 2013. The difference between the carrying amount and the fair value was recognized in profit and loss as gain on early extinguishment of promissory notes. In subsequent periods, the effective interest rate of the principal of Note #1 is 14.18% per annum.

During the six months ended 30 September 2014, pursuant to a letter dated 2 June 2014, Win Today, agreed to further extend the maturity date of its Note #1 from 12 August 2014 to 30 September 2015 (the "New Maturity Date #1") and undertake not to request repayment of any amounts accruing to Win Today from Note #1 until the New Maturity Date #1. The modification of the terms of Note #1 was accounted for as an extinguishment of the original Note #1 and the recognition of new Note #1. The carrying amount of the original Note #1 was derecognized and the fair value of the new Note #1 was determined by an independent valuer and recognized on 2 June 2014. The difference between the carrying amount and the fair value was recognized in profit and loss as gain on early extinguishment of promissory notes. In subsequent periods, the effective interest rate of the principal of the Note #1 is 13.63% per annum.

During the year ended 31 March 2013, pursuant to a letter dated 25 March 2013, Huge Leader Holdings Limited agreed to extend the maturity date of its promissory note receivable ("Note #2") from 31 March 2014 to 31 March 2015 (the "Maturity Date #2") and undertake not to request repayment of any amounts accruing to Huge Leader Holdings Limited from Note #2 until the Maturity Date #2 subject to the following conditions as follow:

- (a) The nature of Capital Marks Limited and its subsidiaries operations and product offerings do not materially change from their present operations and product offerings, and
- (b) Capital Marks Limited continues to seek alternative sources of financing including any debt or equity offerings sufficient to repay the Note #2.

The modification of the terms on Note #2 was accounted for as an extinguishment of the original Note #2 and the recognition of new Note #2. The carrying amount of the original Note #2 was derecognized and the fair value of the new Note #2 was determined by an independent valuer and recognized on 25 March 2013. The difference between the carrying amount and the fair value was recognized in profit and loss as gain on early extinguishment of promissory notes. In subsequent periods, the effective rate is of the principal of Note #2 is 14.56% per annum.

14. **Promissory notes** (continued)

During the six months ended 30 September 2014, pursuant to a letter dated 2 June 2014, Huge Leader Holdings Limited, agreed to further extend the maturity date of its Note #2 from 31 March 2015 to 30 September 2015 (the "New Maturity Date #2") and undertake not to request repayment of any amounts accruing to Huge Leader Holdings Limited from Note #2 until the New Maturity Date #2. The modification of the terms of Note #2 was accounted for as an extinguishment of the original Note #2 and the recognition of new Note #2. The carrying amount of the original Note #2 was derecognized and the fair value of the new Note #2 was determined by an independent valuer and recognized on 2 June 2014. The difference between the carrying amount and the fair value was recognized in profit and loss as gain on early extinguishment of promissory notes. In subsequent periods, the effective interest rate of the principal of the Note #2 is 13.74% per annum.

During the six months ended 30 September 2014, the Group has repaid principal amount of Note #2 amounting to approximately HK\$150,000,000 to Huge Leader Holdings Limited.

The amount of the imputed interest expenses on the promissory notes are disclosed in note 7.

The movement of the carrying amount of the promissory notes during the six months ended 30 September 2014 and 2013 are set out as below:

	HK\$'000
At 1 April 2014	193,779
Interest charged at effective interest rate	11,838
Extinguishment of promissory notes due to extension	(207,564)
Issuance of promissory notes due to extension	185,298
Repayment of promissory notes	(150,000)
Interest payables	(1,885)
	<hr/>
<b>At 30 September 2014</b>	<b>31,466</b>
	<hr/> <hr/>
At 1 April 2013	173,158
Interest charged at effective interest rate	12,092
Interest payables	(2,165)
	<hr/>
<b>At 30 September 2013</b>	<b>183,085</b>
	<hr/> <hr/>



## 15. Ordinary Shares

	Number of Shares	Nominal value of Shares HK\$'000
Authorised:		
Ordinary Shares of HK\$0.01 each		
At 31 March 2014, 1 April 2014 and 30 September 2014	10,000,000,000	100,000
Issued and fully paid:		
Ordinary Shares of HK\$0.01 each:		
At 31 March 2014 and 1 April 2014	5,278,030,000	52,780
Issue of Shares pursuant to the placing ( <i>notes (a) &amp; (d)</i> )	709,000,000	7,090
Issue of Shares pursuant to the conversion of convertible preference Shares ( <i>notes (b) &amp; (d)</i> )	1,862,800,000	18,628
Issue of Shares pursuant to the exercise of share options ( <i>notes (c) &amp; (d)</i> )	153,380,000	1,534
At 30 September 2014	8,003,210,000	80,032

### Notes:

- (a) On 7 August 2014, 709,000,000 ordinary Shares of HK\$0.01 each were issued by the way of placing at a price of HK\$0.30 each for a consideration of approximately HK\$212,700,000. The excess of the placing price over the par value of the Shares issued was credited to the share premium account. For more details, please refer to the Company's announcement dated 7 August 2014.
- (b) During the six months ended 30 September 2014, 1,862,800,000 ordinary Shares of HK\$0.01 each were issued upon the conversion of convertible preference Shares at a conversion price of HK\$0.07 per Share.
- (c) During the six months ended 30 September 2014, 153,380,000 ordinary Shares of HK\$0.01 each were issued at HK\$0.375 each for cash totaling approximately HK\$57,517,500 pursuant to the share option scheme adopted on 6 September 2004 and refreshed on 29 August 2008.
- (d) The Shares issued during the period rank *pari passu* with the existing Shares in all respects.

## 16. Non-voting convertible preference Shares

Non-voting convertible preference Shares, issued and fully paid:

	Number of Shares	Nominal value of Shares HK\$'000
<b>Authorised:</b>		
At 31 March 2014, 1 April 2014 and 30 September 2014	7,000,000,000	490,000
<b>Issued and fully paid:</b>		
Non-voting convertible preference Shares of HK\$0.07 each:		
At 31 March 2014 and 1 April 2014	3,674,000,000	257,180
Conversion of convertible preference Shares ( <i>note</i> )	(1,862,800,000)	(130,396)
<b>At 30 September 2014</b>	<b>1,811,200,000</b>	<b>126,784</b>

*Note:*

During the six months ended 30 September 2014, 1,862,800,000 ordinary Shares of HK\$0.01 each were issued upon the conversion of the convertible preference Shares at a conversion price of HK\$0.07 per Share.

## 17. Share option schemes

The Company operated a share option scheme which became effective on 6 September 2004 (the "2004 Share Option Scheme") which was refreshed on 29 August 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. The 2004 Share Option Scheme expired on 5 September 2014.

During the six months ended 30 September 2014, the Group has granted 153,383,000 share options to certain directors, employees and consultants of the Group under the 2004 Share Option Scheme. For details, please refer to the Company's announcement dated 25 July 2014. No share option was granted, exercised, cancelled or lapsed under the 2004 Share Option Scheme during the six months ended 30 September 2013.

On 29 August 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"), which will be valid for 10 years. For details of 2014 Share Option Scheme, please refer to the Company's circular dated 30 July 2014.

No share option was granted, exercised, cancelled or lapsed under the 2014 Share Option Scheme during the six months ended 30 September 2014.

17. Share option schemes (continued)

Movements in the number of share options outstanding under the 2004 Share Option Scheme and their related weighted average exercise prices are as follows:

	Six months ended 30 September			
	2014		2013	
	Average exercise price	Number of share options '000	Average exercise price	Number of share options '000
At 1 April	–	–	–	–
Granted	HK\$0.375	153,383	–	–
Exercised	HK\$0.375	(153,380)	–	–
Lapsed	HK\$0.375	(3)	–	–
		<hr/>		<hr/>
At 30 September	–	–	–	–
		<hr/> <hr/>		<hr/> <hr/>

During the six months ended 30 September 2014, the share-based payments of approximately HK\$11,709,000 were charged to the unaudited condensed consolidated statement of profit or loss.

18. Operating lease commitments

The Group leases warehouse under operating lease arrangements, with leases negotiated for terms ranging from one to two years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2014 HK\$'000 (Unaudited)	As at 31 March 2014 HK\$'000 (Audited)
Within one year	–	58
	<hr/>	<hr/>

19. **Related party transactions**

During the six months ended 30 September 2014, in addition to the balance disclosed elsewhere in Interim Financial Statements, the Group had the following material transactions with related parties:

(a) **Key management personnel**

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	519	518
Share-based payments	1,171	–
	<hr/>	<hr/>
	1,690	518
	<hr/>	<hr/>

The remuneration of directors and key executives of the Group is determined by the remuneration committee of the Company having regard to the performance of individual and market trends.

(b)

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Management service fee paid to abc Multiactive (Hong Kong) Ltd (“abc Multiactive”)	–	78
	<hr/>	<hr/>

In the opinion of the directors of the Company (the “Directors”), the above transactions arose in the ordinary course of business of the Group.

The ultimate holding company of abc Multiactive is controlled by the family member of the former executive Directors.

20. **Events after the reporting period**

The Group did not have any significant event after the reporting period.

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 September 2014, the Group recorded a turnover of approximately HK\$1,904,000 (2013: HK\$2,553,000), representing a decrease of 25.42% as compared with corresponding period last year. The decrease in turnover in the Current Interim Period mainly because the food and beverage sector are facing challenges such as higher food costs and soaring rental expenses. As such, merchants has less budget on advertising. Gross profit increased to approximately HK\$1,204,000 in the Current Interim Period (2013: HK\$106,000). The gross profit margin increased to 63.24% in the Current Interim Period from 49.50% over the second half for the year ended 31 March 2014. The increase in gross profit margin was mainly because we focus on those services which has higher profit margin in the advertising segment.

Loss attributable to the owners of the Company amounted to approximately HK\$5,359,000 in the Current Interim Period (2013: HK\$90,624,000) and loss per Share for the period was HK0.08 cents in the Current Interim Period (2013: HK1.02 cents). In addition to the increase in gross profit compared with corresponding period last year, the significant decrease in loss attributable to the owners of the Company as compared with corresponding period last year was mainly due to (1) the one-off gains on extinguishment of promissory notes amounted to approximately HK\$22,266,000 accounted for as other income; (2) due to unexpected adverse operating conditions of the food and beverage sector, goodwill on advertising at mobile devices and retail chain network has a significant provision of impairment loss amounted to approximately HK\$70,137,000 for the corresponding period last year.

### Advertising Business

During the Current Interim Period, the Company has completed a placing of 709,000,000 new ordinary Shares with net proceeds amounted to approximately HK\$207,985,000 for the purposes of debts repayment, development of movie and media operation and general working capital. In addition to support the reinforcement of our existing mobile application business, the top-up placing also enabled the Company to focus on the expansion and development of its operation in the culture and entertainment segment.

For the Current Interim Period, a wholly-owned subsidiary of the Company, that is principally dedicated to constructing a catering business mobile platform, has been actively engaged in development of mobile internet business based on established foundation and closely following the O2O path. It aims at connecting the online and offline operational procedures in traditional catering businesses that would result in forming a data closed-loop. The platform has launched such interactive features like online order placing and online table booking. It has even provided, on a trial basis, mobile payment service for some merchants. As a result, efficiency of the clients' restaurants has been improved rather remarkably. Our platform has been hugely popular among catering business operators.

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## Financial Review

### Liquidity and financing

The Group had total cash and bank balances of approximately HK\$93,947,000 as at 30 September 2014 (31 March 2014: HK\$2,183,000). The Group recorded total current assets of approximately HK\$95,096,000 as at 30 September 2014 (31 March 2014: HK\$4,662,000) and total current liabilities of approximately HK\$17,901,000 as at 30 September 2014 (31 March 2014: HK\$16,451,000).

There were no bank borrowings as at 30 September 2014 (31 March 2014: Nil). The Group's gearing ratio, calculated by aggregate of amounts of other loan and promissory notes over total assets decreased to 6.22% (31 March 2014: 51.63%).

### Capital structure and use of proceeds

On 24 July 2014, the Group completed a top-up placing of 709,000,000 Shares, from which proceeds of approximately HK\$150,000,000 was applied for repayment of our existing debts, approximately HK\$40,000,000 would be applied for the development of our movie and media operation, and the remaining proceeds of approximately HK\$17,985,000 for the general working capital purposes.

During the six months ended 30 September 2014, non-voting convertible preference Shares amounted to approximately HK\$130,396,000 have been converted into 1,862,800,000 ordinary Shares. Upon exercise of share options, 153,380,000 ordinary Shares were issued.

### Interim Dividend

The Board has resolved not to declare an interim dividend for the Current Interim Period.

### Treasury policies

Cash and bank deposits of the Group are mainly in Hong Kong dollars or Renminbi. The Group conducts its core business transaction mainly in Hong Kong dollars such that the Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### Pledge of assets

At 30 September 2014, no asset was pledged for the Group.

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## Capital commitment

At 30 September 2014, the Group had no material capital commitment.

## Contingent liabilities

At 30 September 2014, the Group had no material contingent liabilities.

## Employment information

At 30 September 2014, the Group had 15 full time employees whom are employed in Hong Kong and the PRC. They are remunerated at market level with benefits such as medical, retirement benefit and share option scheme.

## Prospect

Seeing the irreversible trend that new media is the growing power in mass media sector and is exerting great impact to the market landscape, the Group will continue its venture in the mobile applications business as well as look for opportunities to extend into other potential businesses such as new media marketing, advertising and culture, movie and entertainment-related businesses.

The Group has been witnessing the current process of opening up of the culture, entertainment and movie market in Mainland China, and we believe there are good potential and promising prospects in the respective businesses contemplated by our Group.

Looking forward, ongoing financial market turmoil and challenging operating environment notwithstanding, the Group will strive to closely monitor and timely identify any investment opportunities that may arise in the areas of culture and entertainment, new media, mobile applications, e-commerce, advertising etc.. Our management is committed to look for business opportunities that would generate long-term returns to our shareholders.

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

At 30 September 2014, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise require notification to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

Long position in shares, underlying shares and debentures of the Company or its associated corporations:

Name of Director	Capacity and nature of interests	Number of Shares held (long position)	Approximate percentage of shareholding
Shen Lihong	Beneficial owner	15,338,000	0.19%

Save as disclosed above, as at 30 September 2014, none of the directors or the chief executive of the Company had registered any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded in the register pursuant to section 352 of the SFO, or as otherwise require notification to the Company and the Stock Exchange pursuant to the Model Code.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2014, so far as known to the Directors, the interests and short positions of the person (other than the directors and chief executive of the Company) holding 5% or more in Shares or underlying Shares as required to be recorded in the register or required to notify the Company pursuant to section 336 of the SFO, were as follows:

Long position in shares, underlying shares and debentures of the Company or its associated corporations:

Name of shareholders	Capacity	Numbers of Shares held (long position)	Numbers of underlying Shares held (long position)	Approximate percentage of shareholding
Huge Leader Holdings Limited	Beneficial Owner	1,723,000,000 <i>notes (a) &amp; (e)</i>	1,811,200,000 <i>notes (a) &amp; (e)</i>	44.16%
Chan Ka Wai	Corporate Interest	1,723,000,000 <i>note (a)</i>	1,811,200,000 <i>note (a)</i>	44.16%
Xiao Baoyan	Corporate Interest	1,723,000,000 <i>note (a)</i>	1,811,200,000 <i>note (a)</i>	44.16%
中國文化藝術 (港澳) 有限公司	Beneficial Owner	1,500,000,000 <i>note (b)</i>		18.74%
Wan Boao	Beneficial Owner	223,000,000 <i>note (c)</i>	800,000,000 <i>note (c)</i>	12.78%
Hu Yidong	Beneficial Owner		1,011,200,000 <i>note (d)</i>	12.63%

Notes:

- (a) The interests refer to the same parcel of Shares and underlying Shares.
- (b) The interests refer to the same parcel of Shares.
- (c) The interests refer to the same parcel of Shares and underlying Shares.
- (d) The interests refer to the same parcel of underlying Shares.
- (e) Huge Leader Holdings Limited is owned as to 60% by Mr. Xiao Baoyan and 40% by Ms. Chan Ka Wai. The interest in underlying Shares represents non-voting convertible preference Shares of HK\$0.07 each.

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Save as disclosed above, as at 30 September 2014, the Company had not been notified of any other persons, other than the directors and chief executives of the Company, whose interests are set out in the section “Directors’ and chief executives interests and short positions in Shares, underlying Shares and debentures” above, who had any interests or short positions in the Shares or underlying Shares that was required to be recorded pursuant to section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Company has not redeemed any of its listed securities during the Current Interim Period.

Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the Current Interim Period.

## **CODE ON CORPORATE GOVERNANCE**

Throughout the period under review, the Group has adopted and met all the Code Provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 of the Listing Rules during the Current Interim Period except for the following deviations:

Code provision A.4.1 of the CG Code stipulates that the non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive Directors is appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices in this respect are no less exacting than those of the CG Code.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Due to other business engagement, the independent non-executive Directors Dr. Wan Ho Yuen Terence, Ms. Wang Miaojun and Mr. Ma Qianli (retired on 29 August 2014), were unable to attend the annual general meeting of the Company held on 29 August 2014.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Group has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry made by the Company, that they have fully complied with the Model Code throughout the Current Interim Period.

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## AUDIT COMMITTEE

At 30 September 2014 and the date of this report, the audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Liu Kwong Sang, Dr. Wan Ho Yuen Terence and Ms. Wang Miaojun. Mr. Liu Kwong Sang is the chairman of the Audit Committee. The primary functions and duties of the Audit Committee are to recommend the appointment, re-appointment and removal of the external auditors, oversee the integrity of financial information of the Company and its disclosure, provide independent review of the effectiveness of the financial controls, internal control and risk management systems of the Group, and review the accounting principles and practices adopted by the Group.

The Audit Committee has reviewed this report, which was prepared based on (i) the accounting principles and practices adopted by the Group, and (ii) the unaudited condensed consolidated interim financial information for the six months ended 30 September 2014. After review and discussions, the Audit Committee recommended the Board to approve the unaudited condensed consolidated interim financial information for the six months ended 30 September 2014.

On behalf of the Board  
China National Culture Group Limited

Shen Lihong  
*Director*

Hong Kong, 28 November 2014