

CNCG

CHINA NATIONAL CULTURE GROUP LIMITED

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

2016 Interim Report



CONTENTS

- 2 CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
- 3 CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- 4 CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- 6 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- 7 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
- 8 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- 21 MANAGEMENT DISCUSSION AND ANALYSIS
- 25 DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS
- 26 DIRECTORS' RIGHTS TO ACQUIRE SHARES
- 26 SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES
- 26 DIRECTORS' INTERESTS IN COMPETING BUSINESS
- 26 PURCHASE, SALE OR REDEMPTION OF SECURITIES
- 26 MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS
- 27 CODE ON CORPORATE GOVERNANCE
- 27 AUDIT COMMITTEE
- 28 APPRECIATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

	Notes	Six months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Turnover	5	34,717	10,238
Cost of sales		(26,999)	(6,417)
Gross profit		7,718	3,821
Other income	5	4,662	621,978
Administrative expenses		(29,054)	(3,796)
(Loss)/profit from operating activities	6	(16,674)	622,003
Finance costs	7	–	(12,324)
(Loss)/profit before taxation		(16,674)	609,679
Taxation	8	(2,303)	(102,934)
(Loss)/profit for the period		(18,977)	506,745
Attributable to:			
– Owners of the Company		(18,977)	506,745
– Non-controlling interests		–	–
		(18,977)	506,745
(Loss)/earnings per share	10		
For (loss)/profit for the period			
– basic and diluted (HK cents)		(0.24)	9.04

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(18,977)	506,745
Other comprehensive (loss)/income		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent period:		
Exchange differences on translating foreign operations	(162)	6
Other comprehensive (loss)/income for the period, net of income tax	(162)	6
Total comprehensive (loss)/income for the period	(19,139)	506,751
Attributable to:		
– Owners of the Company	(19,139)	506,751
– Non-controlling interests	–	–
	(19,139)	506,751

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

		At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	11	252	322
Goodwill		204,378	175,686
Intangible assets		231,190	148,806
Deposit paid for the acquisition of a subsidiary		–	20,000
		435,820	344,814
Current assets			
Financial assets held for trading	12	510,719	459,461
Accounts receivable	13	30,634	24,564
Prepayments, deposits and other receivables		30,243	25,921
Inventories		2,750	2,750
Cash and cash equivalents		131,286	238,292
		705,632	750,988
Total assets		1,141,452	1,095,802
EQUITY			
Capital and reserves			
Share capital	15	196,288	196,288
Reserves		690,067	709,206
Total equity		886,355	905,494

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 30 September 2016

		At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
LIABILITIES			
Current liabilities			
Accounts payable	14	1,184	1,184
Consideration payable		115,000	80,000
Other payables and accruals		12,861	5,006
Tax payable		1,750	990
Deferred tax liabilities	17	119,674	101,021
Deferred income		4,628	2,107
		255,097	190,308
Total liabilities		255,097	190,308
Total equity and liabilities		1,141,452	1,095,802
Net current assets		450,535	560,680
Total assets less current liabilities		886,355	905,494

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

Attributable to owners of the Company

	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
At 1 April 2016	196,288	1,233,312	-	(37)	(524,069)	905,494
Loss for the period	-	-	-	-	(18,977)	(18,977)
Other comprehensive loss for the period	-	-	-	(162)	-	(162)
Total comprehensive loss for the period	-	-	-	(162)	(18,977)	(19,139)
At 30 September 2016	196,288	1,233,312	-	(199)	(543,046)	886,355
At 1 April 2015	98,144	851,180	9,800	(235)	(657,119)	301,770
Profit for the period	-	-	-	-	506,745	506,745
Other comprehensive income for the period	-	-	-	6	-	6
Total comprehensive income for the period	-	-	-	6	506,745	506,751
Issue of shares upon open offer	98,144	382,139	-	-	-	480,283
At 30 September 2015	196,288	1,233,319	9,800	(229)	(150,374)	1,288,804

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(25,410)	(10,664)
Net cash outflow from investing activities	(81,596)	(5,049)
Net cash inflow from financing activities	–	365,627
Net (decrease)/increase in cash and cash equivalents	(107,066)	349,914
Cash and cash equivalents at the beginning of the period	238,292	46,424
Cash and cash equivalents at the end of the period Represented by cash and cash equivalents	131,286	396,338

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. Corporate information

China National Culture Group Limited 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 office unit 403, 4th floor, Wing Tuck Commercial Centre, 177-183 Wing Lok Street, Sheung Wan, Hong Kong.

The Company and its subsidiaries were principally involved in providing the advertising media services, e-commerce, film production and distribution business.

2. Basis of preparation

The unaudited condensed consolidated interim financial statements ("Interim Financial Statements") for the six months ended 30 September 2016 ("Current Interim Period") have been prepared in accordance with Hong Kong Accounting Standard ("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 2016 ("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 revalued amounts or fair value, as appropriate.

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 2016.

3. **Principal accounting policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair value, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Annual Report except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2016.

The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group and has no material impact on the Group. In addition, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effect.

4. **Segment information**

For the purposes of resources allocation and performance assessment, information is reported to the chief operating decision maker of the Company, based on the following operating and reportable segments:

- (a) the advertising segment – provision of advertising and value added services through mobile devices;
- (b) the movie production segment – production and distribution of films and provision of other film related services; and
- (c) the e-commerce segment – sale of products over the internet.

4. Segment information (continued)
Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

	Advertising Six months ended		E-commerce Six months ended		Consolidated Six months ended	
	30 September 2016 HK\$'000 (Unaudited)	30 September 2015 HK\$'000 (Unaudited)	30 September 2016 HK\$'000 (Unaudited)	30 September 2015 HK\$'000 (Unaudited)	30 September 2016 HK\$'000 (Unaudited)	30 September 2015 HK\$'000 (Unaudited)
Segment revenue:						
Contract revenue from external customers	11,258	4,000	23,459	6,238	34,717	10,238
Segment results	7,602	3,760	116	61	7,718	3,821
Other revenue and unallocated gains					4,662	621,978
Corporate and other unallocated expenses					(29,054)	(3,796)
Finance costs					-	(12,324)
(Loss)/profit before taxation					(16,674)	609,679
Taxation					(2,303)	(102,934)
(Loss)/profit for the period					(18,977)	506,745

There were no inter-segment sales during the period (2015: Nil). Segment results represents the profit earned without allocation of central administration costs including directors' salaries, investment and other income, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

4. Segment information (continued)
Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

	Advertising		E-commerce		Consolidated	
	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Segment assets	270,509	171,930	34,392	32,148	304,901	204,078
Unallocated assets					836,551	891,724
					1,141,452	1,095,802
Segment liabilities	11,313	105,887	-	-	11,313	105,887
Unallocated liabilities					243,784	84,421
					255,097	190,308

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than financial assets held for trading and unallocated head office and corporate assets.
- all liabilities are allocated to reportable segments other than current tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

4. **Segment information** (continued)
Other segment information

	Advertising		E-commerce		Unallocated		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September	30 September	30 September	30 September	30 September	30 September	30 September	30 September
	2016	2015	2016	2015	2016	2015	2016	2015
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation	21,025	50	362	-	-	68	21,387	118
Additions to non-current assets	130,726	-	-	5,049	-	-	130,726	5,049

Geographical information

The Group operates in two principal geographical areas – Hong Kong and the PRC.

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Hong Kong		The PRC		Total	
	Six months ended		Six months ended		Six months ended	
	30 September	30 September	30 September	30 September	30 September	30 September
	2016	2015	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	23,459	6,238	11,258	4,000	34,717	10,238

	At	At	At	At	At	At
	30 September	31 March	30 September	31 March	30 September	31 March
	2016	2016	2016	2016	2016	2016
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Non-current assets	435,820	151,546	-	193,268	435,820	344,814

4. **Segment information** *(continued)*
Revenue from its major services/products

The Group's revenue from its major services/products was as follows:

	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Advertising	11,258	4,000
E-commerce	23,459	6,238
	34,717	10,238

Information about major customer

Revenue from customer for the six months ended 30 September 2016 contributing over 10% of the total revenue of the Group are generated from e-commerce business (2015: e-commerce business) and as follows:

	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	4,056	3,143
Customer B	8,583	3,095
Customer C	10,820	–

There is no other single customer contributing over 10% of total revenue of the Group for the six months ended 30 September 2016 and 2015.

5. Turnover and other income

An analysis of Group's turnover and other income is as follows:

	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover:		
Advertising income	11,258	4,000
E-commerce income	23,459	6,238
	34,717	10,238
Other income:		
Fair value gain on financial assets held for trading	4,662	621,978

6. (Loss)/profit from operating activities

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

	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	21,387	118

7. Finance costs

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Imputed interest on promissory notes	–	12,324

8. Taxation

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong	761	522
Deferred tax		
Current period	1,542	102,412
	2,303	102,934

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 September 2016 and 2015.

9. Dividends

No dividend was paid, declared or proposed during the six months ended 30 September 2016 and 2015. The Board do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2016 (30 September 2015: Nil).

10. (Loss)/earnings per share

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

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings for the period attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	(18,977)	506,745

	Six months ended 30 September	
	2016	2015
	'000	'000
	(Unaudited)	(Unaudited)
		(Restated)
	7,926,923	5,608,234

Weighted average number of shares of the Company (the "Shares") for the purpose of basic and diluted (loss)/earnings per share

7,926,923

5,608,234

Diluted loss per share were same as basic earnings per share as there were no potential dilutive shares in existences during the six months ended 30 September 2016. Diluted earnings per share for the six months ended 30 September 2015 were the same as basic earnings per share as the potential share is anti-dilutive.

11. Movements in property, plant and equipment

During the six months ended 30 September 2016, the Group did not acquire any property, plant and equipment.

During the six months ended 30 September 2015, the Group acquired property, plant and equipment of approximately HK\$5,049,000.

12. Financial assets held for trading

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Equity securities listed in Hong Kong	510,719	459,461

At the end of the reporting period, details of financial assets held for trading as follows:

Stock code	Fair value gain/(loss) HK\$'000 (Unaudited)	At 30 September 2016 HK\$'000 (Unaudited)
1027	35,750	422,500
1327	3,137	27,257
8021	2,892	16,380
Others	(37,117)	44,582
	4,662	510,719

13. Accounts receivable

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

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Within 30 days	4,064	–
31 – 90 days	8,354	20,764
91 – 180 days	17,069	3,700
Over 180 days	1,376	329
	30,863	24,793
Less: impairment loss in respect of accounts receivable	(229)	(229)
	30,634	24,564

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

14. 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 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
181-365 days	–	1,150
Over 365 days	1,184	34
	1,184	1,184

15. Share capital

	Number of Shares '000	Nominal value of Shares HK\$'000
Authorised:		
Share capital of HK\$0.02 each At 31 March 2016 and 30 September 2016	50,000,000	1,000,000
Issued and fully paid:		
Share capital of HK\$0.02 each At 31 March 2016 and 30 September 2016	9,814,410	196,288

16. Non-voting convertible preference shares

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

	Number of Shares '000	Nominal value of Shares HK\$'000
Authorised:		
At 31 March 2015, 1 April 2015, 31 March 2016 and 30 September 2016	7,000,000	490,000

Issued and fully paid:

Non-voting convertible preference Shares of
HK\$0.07 each:

At 31 March 2015, 1 April 2015,
31 March 2016 and 30 September 2016

— —

17. Deferred tax liabilities

	Accelerated tax depreciation HK\$'000	Financial assets held for trading HK\$'000	Intangible assets HK\$'000	Total HK\$'000
At 31 March 2016 (Audited) and 1 April 2016	11	64,864	36,146	101,021
Arising from acquisition of subsidiaries	—	—	17,111	17,111
Charge to profit or loss	—	5,317	(3,775)	1,542
At 30 September 2016 (Unaudited)	11	70,181	49,482	119,674

18. Share option schemes

On 29 August 2014, the Company adopted the existing 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 2016 and 2015.

19. Operating lease commitments

The Group leases office premise under operating lease arrangements, with leases negotiated for terms of three years.

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

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Within one year	84	168
In the second to fifth years inclusive	140	224
	224	392

20. Related party transactions

During the six months ended 30 September 2016 and 2015, in addition to the balance disclosed elsewhere in Interim Financial Statements, the Group had the following material transactions with related parties:

Key management personnel

	Six months ended 30 September 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short-term employee benefits	180	353
	180	353

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.

21. Events after the reporting period

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

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Dividend

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

Business Review

For the six months ended 30 September 2016, the Group recorded a turnover of approximately HK\$34,717,000 (2015: HK\$10,238,000), representing an increase of 239.1% as compared with corresponding period last year. The increase in turnover in the Current Interim Period mainly because the Group just commenced e-commerce business during the six months ended 30 September 2015 and increase in customers in advertising segment compare to corresponding period last year due to the completion of acquisition of a subsidiary. Gross profit increased to approximately HK\$7,718,000 in the Current Interim Period (2015: HK\$3,821,000). The gross profit margin decreased to 22.2% in the Current Interim Period from 37.3% over the second half for the year ended 31 March 2016. The decrease in gross profit margin was mainly because the Group commenced e-commerce business which has lower gross profit margin. Administrative expenses also increased to approximately HK\$29,054,000 for the six months ended 30 September 2016 from approximately HK\$3,796,000 over the second half for the year ended 31 March 2016. The increase was mainly due to the increase of depreciation of intangible assets.

Loss attributable to the owners of the Company amounted to approximately HK\$18,977,000 in the Current Interim Period (2015: Profit of HK\$506,745,000) and loss per Share for the period was HK\$0.24 cents in the Current Interim Period (2015: earnings per Share of HK\$9.04 cents). In addition to the increase in gross profit compared with corresponding period last year, the significant decline on performance of the Group as compared with corresponding period last year was mainly due to the recognition of unrealised gain on investment in China Jicheng Holdings Limited (Stock code: 1027.HK) of approximately HK\$619,320,000 for the corresponding period last year.

Advertising Business

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.

E-commerce Business

For the Current Interim Period, a wholly-owned subsidiary of the Company commenced the business of e-commerce. The boom of e-commerce in China and the Group's continuous expansion of e-commerce channel contributed to the substantial increase in the weighting of the revenue of sales from e-commerce channel. In view of the rising popularity of e-commerce, the Group believes that it will help to open up new income streams.

Financial Review

Liquidity and financing

The Group had total cash and bank balances of approximately HK\$131,286,000 as at 30 September 2016 (31 March 2016: HK\$238,292,000). The Group recorded total current assets of approximately HK\$705,632,000 as at 30 September 2016 (31 March 2016: HK\$750,988,000) and total current liabilities of approximately HK\$255,097,000 as at 30 September 2016 (31 March 2016: HK\$190,308,000).

There were no bank borrowings as at 30 September 2016 (31 March 2016: Nil). The Group's gearing ratio, calculated by aggregate of amounts of other loan and promissory notes over total assets remained as zero (31 March 2016: zero).

Capital structure and use of proceeds

Authorised share capital

As at 30 September 2016, the authorised share capital of the Company ("Authorised Share Capital") was HK\$1,490,000,000.00 divided into 50,000,000,000 shares ("Shares") of HK\$0.02 each and 7,000,000,000 non-voting convertible preference shares of HK\$0.07 each. The Authorised Share Capital had no change during the Current Interim Period.

Issued share capital

As at 30 September 2016, the number of Shares in issue was 9,814,410,000 Shares of HK\$0.02 each. The issued share capital of the Company had no change during the Current Interim Period.

During the six months ended 30 September 2016, the Group has applied the net proceed as follows:

	Amount available HK\$'000	Amount utilised HK\$'000	Amount unutilised HK\$'000
– Acquisition of potential targets principally engaged in the mobile application business in the PRC	180,256	160,190	20,066
– Potential investment opportunities and/or related funding requirements associated with investment opportunities identified from time to time	180,256	142,300	37,956
– Development and operation of the Group's proposed establishment of e-commerce business	50,071	50,071	–
– Repayment of existing debts of the Group	30,043	30,043	–
– General working capital	39,657	39,657	–
	<u>480,283</u>	<u>422,261</u>	<u>58,022</u>

The unutilised net proceeds are placed in the bank accounts of the Group.

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

As at 30 September 2016, no asset was pledged for the Group.

Capital commitment

As at 30 September 2016, the Group had no material capital commitment.

Contingent liabilities

As at 30 September 2016, the Group had no material contingent liabilities.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or acquisition of capital assets

Save for those disclosed in this interim report, there were no other significant investments held, material acquisitions or disposals of subsidiaries during the Current Interim Period. Apart from those disclosed in this interim report, there was no plan approved by the Board for other material investments or acquisition of capital assets as at the date of this interim report.

No material changes

Saved as disclosed in this interim report, from 1 April 2016 to 30 September 2016, there are no material changes affecting the Company's performance that needs to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

Share option

The Company has adopted the existing share option scheme (the "2014 Share Option Scheme") on 29 August 2014 and scheme mandate limit of which has been refreshed at the annual general meeting of the Company held on 10 September 2015.

As at 30 September 2016 and at no time during the Current Interim Period was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

No share option was granted, exercised, cancelled or lapsed under the 2014 Share Option Scheme during the six months ended 30 September 2016.

Employment information

As at 30 September 2016, the Group had 16 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

With a series of new developments in the pipeline, we are excited about the opportunities ahead.

In April 2016, the Group have completed the acquisition of Group Wise Holdings Limited (“Group Wise”) as it is considered that (1) certain expertise knowledge and the platform of Group Wise can be utilised in the Group’s business of advertising media services, the acquisition of Group Wise is in line with the business development strategy and expansion plan of Group Wise; (2) Group Wise has well-established business in marketing services, the Board considers the acquisition will enable the Group to complement its existing movie distribution business, which may have synergetic effect.

The vision of the Group is (1) to expand its existing services offerings to different industry and also the geographical coverage; and (2) to look for business opportunities that would generate long-term returns to its shareholders.

To achieve this vision, our future plans include:

- Continued development of advertising and e-commerce related businesses;
- Expansion of advertising and e-commerce related business through acquisition and/or co-operation;
- Strategic investments in both regional and overseas movie productions;
- Diversifying the Group’s business portfolio in other business sector including but not limited to money lending business

The Group will keep the shareholders abreast of the latest development of the Group.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 September 2016, none of the Directors or chief executives had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or interest and short positions required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or interests and short positions which fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as stipulated in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the Current Interim Period, the Company or any of its subsidiaries did not make any arrangements to enable any Directors or their respective spouse or minor children to obtain benefits by means of the acquisition of shares of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 September 2016, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, there is no person (other than the Directors and chief executive of the Company) had, or was deemed or taken to have, an interest or short position 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 who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had engaged in any business which competes or may compete directly or indirectly with the business of the Group for the six months ended 30 September 2016.

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.

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.

CODE ON CORPORATE GOVERNANCE

Except for the following deviations, 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 throughout the Current Interim Period.

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 articles of association 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 Director Ms. Wang Miaojun, was unable to attend the annual general meeting of the Company held on 31 August 2016.

AUDIT COMMITTEE

During the six months ended 30 September 2016, Ms. Cheung Lai Chun has resigned as a member of Audit Committee with effect from 10 May 2016 and Ms. Wang Yujie has been appointed as a replacement on 27 July 2016. As at 30 September 2016 and the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Liu Kwong Sang, Ms. Wang Miaojun and Ms. Wang Yujie. Mr. Liu Kwong Sang, who possess appropriate professional qualifications, accounting and financial management expertise, is the chairman of the Audit Committee. The primary duties of the Audit Committee are: to independent review and supervise the financial reporting process, internal control and risk management systems on an ongoing basis, to ensure good communications among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide advice on audit report, accounting policies and comments to all Directors.

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 2016. 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 2016.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this interim report, there were no other significant events affecting the Company nor any of its subsidiaries after the reporting period as at 30 September 2016 requiring disclosure in this interim report.

APPRECIATION

The Directors would like to take this opportunity to thank our shareholders, the management and our staff members for their dedication and support.

On behalf of the Board

CHINA NATIONAL CULTURE GROUP LIMITED

SUN Wei

Director

Hong Kong, 25 November 2016