



環球數碼

GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

**FIRST QUARTERLY RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2021**

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This announcement, for which the directors (the “Director(s)”) of Global Digital Creations Holdings 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 announcement 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 announcement misleading.

* For identification purpose only

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2021 with comparative figures for the corresponding period in the year 2020.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2021

		Three months ended	
		31 March	
	NOTE	2021	2020
		HK\$'000	HK\$'000
Continuing operations			
Revenue	3	17,436	19,191
Cost of sales		<u>(7,825)</u>	<u>(13,208)</u>
Gross profit		9,611	5,983
Other income	4	3,139	2,097
Distribution and selling expenses		(332)	(2,407)
Administrative expenses		(9,893)	(8,623)
Other losses, net	5	<u>(41)</u>	<u>(55)</u>
Operating profit/(loss)		2,484	(3,005)
Finance cost		<u>(4)</u>	<u>(23)</u>
Profit/(loss) before income tax		2,480	(3,028)
Income tax (expense)/credit	6	<u>(740)</u>	<u>593</u>
Profit/(loss) for the period from continuing operations		1,740	(2,435)
Discontinued operation			
Loss for the period	7	<u>(7,519)</u>	<u>(4,580)</u>
Loss for the period		(5,779)	(7,015)
Other comprehensive loss:			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		<u>(748)</u>	<u>(3,948)</u>
Total comprehensive loss for the period		<u>(6,527)</u>	<u>(10,963)</u>

		Three months ended	
		31 March	
		2021	2020
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period attributable to:			
– Owners of the Company:			
– Continuing operations		1,740	(2,435)
– Discontinued operation		(5,113)	(3,114)
		<u> </u>	<u> </u>
		(3,373)	(5,549)
		<u> </u>	<u> </u>
– Non-controlling interests:			
– Continuing operations		–	–
– Discontinued operation		(2,406)	(1,466)
		<u> </u>	<u> </u>
		(2,406)	(1,466)
		<u> </u>	<u> </u>
		(5,779)	(7,015)
		<u> </u>	<u> </u>
Total comprehensive (loss)/income for the period attributable to:			
– Owners of the Company:			
– Continuing operations		(64)	(13,266)
– Discontinued operation		(4,395)	1,566
		<u> </u>	<u> </u>
		(4,459)	(11,700)
		<u> </u>	<u> </u>
– Non-controlling interests		(2,068)	737
		<u> </u>	<u> </u>
		(6,527)	(10,963)
		<u> </u>	<u> </u>
		HK cents	HK cents
Earnings/(loss) per share attributable to the owners of the Company:			
Basic and diluted earnings/(loss) per share	8		
– continuing operations		0.12	(0.16)
– discontinued operation		(0.34)	(0.21)
		<u> </u>	<u> </u>
		(0.22)	(0.37)
		<u> </u>	<u> </u>

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated statement of comprehensive income has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated statement of comprehensive income has been prepared on the historical cost basis except for an investment property which is measured at fair value.

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of comprehensive income for the three months ended 31 March 2021 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

In the current period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the financial year beginning on 1 January 2021. The application of the amendments to HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of comprehensive income.

3. REVENUE

An analysis of the Group's revenue from continuing operations is as follows:

	Three months ended	
	31 March	
	2021	2020
	HK\$'000	HK\$'000
Revenue from computer graphic ("CG") production	1,425	3,583
Revenue from original television series and movies	546	2,023
Management service fee	3,196	2,761
Rental income	12,269	10,824
	<u>17,436</u>	<u>19,191</u>

4. OTHER INCOME

	Three months ended	
	31 March	
	2021	2020
	HK\$'000	HK\$'000
Continuing operations		
Interest income	1,781	1,449
Government grants	1,279	573
Others	79	75
	<u>3,139</u>	<u>2,097</u>

5. OTHER LOSSES, NET

	Three months ended	
	31 March	
	2021	2020
	HK\$'000	HK\$'000
Continuing operations		
Loss on disposal of property, plant and equipment	–	(39)
Exchange loss	(41)	(16)
	<u>(41)</u>	<u>(16)</u>
	<u>(41)</u>	<u>(55)</u>

6. INCOME TAX (EXPENSE)/CREDIT

	Three months ended	
	31 March	
	2021	2020
	HK\$'000	HK\$'000
Continuing operations		
PRC Corporate Income Tax (“CIT”):		
Current tax	(286)	–
Deferred income tax	(454)	593
	<u>(740)</u>	<u>593</u>
Income tax (expense)/credit	<u>(740)</u>	<u>593</u>

Notes:

- a. No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the three months ended 31 March 2021 and 2020.
- b. The PRC CIT represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the Mainland China (“Mainland China”, for the purpose of this announcement, refers to the mainland of the People’s Republic of China (the “PRC”) and does not include Hong Kong, Macau and Taiwan), in which the Group operates. The tax rate applicable to the subsidiaries in the PRC is 25%, except for two subsidiaries (three months ended 31 March 2020: one subsidiary) of the Group in the PRC which were approved as High and New Technology Enterprise and accordingly, it is subject to a reduced preferential CIT rate of 15% for a 3-year period according to the applicable CIT Law. Moreover, two subsidiaries were qualified for the local government tax concession scheme to enjoy a preferential tax rate for the period.

7. DISCONTINUED OPERATION

In prior years, the Group was involved in the culture, entertainment and related commercial property investment operation through a non-wholly owned subsidiary of the Group. As a result of the full impairment of the investment property of Phase I of 珠影文化產業園, the Cultural Park operation was classified as discontinued operation with effect from 1 December 2018. Certain costs continued to be incurred during the three months ended 31 March 2021 and 2020 as the matters set out in “MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS” remain unsolved.

The results of the discontinued operation for the three months ended 31 March 2021 and 2020 were as follows:

	Three months ended	
	31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income	133	–
Administrative expenses	(5,815)	(2,725)
Rental and settlement expenses	(1,837)	(1,847)
	<u> </u>	<u> </u>
Loss before income tax	(7,519)	(4,572)
Income tax expense	–	(8)
	<u> </u>	<u> </u>
Loss for the period from discontinued operation	<u><u>(7,519)</u></u>	<u><u>(4,580)</u></u>

8. EARNINGS/(LOSS) PER SHARE

	Three months ended	
	31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) attributable to owners of the Company		
– continuing operations	1,740	(2,435)
– discontinued operation	(5,113)	(3,114)
	<u> </u>	<u> </u>
	<u><u>(3,373)</u></u>	<u><u>(5,549)</u></u>

	Three months ended	
	31 March	
	2021	2020
	<i>No. of shares</i>	<i>No. of shares</i>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue	<u><u>1,510,036</u></u>	<u><u>1,517,348</u></u>

	Three months ended	
	31 March	
	2021	2020
	<i>HK cents</i>	<i>HK cents</i>
Basic and diluted earnings/(loss) per share		
– continuing operations	0.12	(0.16)
– discontinued operation	(0.34)	(0.21)
	<hr/>	<hr/>
Total basic and diluted loss per share	(0.22)	(0.37)
	<hr/> <hr/>	<hr/> <hr/>

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during both periods excluding ordinary shares repurchased by the Company.

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2021 and 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2021 (the “Review Period”), the revenue from the continuing operations amounted to HK\$17,436,000, representing a decrease of HK\$1,755,000 as compared with HK\$19,191,000 for the corresponding period of 2020. The revenue from the CG creation and production division decreased by HK\$3,635,000 as compared to the corresponding period of last year. This was mainly because an animated film of the Group was screened in the first quarter of last year but no film being screened during the Review Period. Coupled with a decrease in the orders of the animation production subcontracting undertaken during the Review Period, the revenue from the original work projects and animation production subcontracting decreased by HK\$1,477,000 and HK\$2,158,000 as compared to the corresponding period of last year. The rental income and management service fee from the new cultural space division increased by HK\$1,880,000 as compared to the corresponding period of last year.

Cost of sales from the continuing operations for the Review Period amounted to HK\$7,825,000, representing a decrease of HK\$5,383,000 as compared with HK\$13,208,000 for the corresponding period of 2020. This was mainly because the cost of an animated film was recognized in the first quarter of last year and there was no such cost recognized during the Review Period.

Other income from the continuing operations for the Review Period amounted to HK\$3,139,000, representing an increase of HK\$1,042,000 as compared with HK\$2,097,000 for the corresponding period of 2020, which was mainly attributable to the increase in government grants and interest income of HK\$706,000 and HK\$332,000 respectively.

Distribution and selling expenses from the continuing operations for the Review Period amounted to HK\$332,000, representing a decrease of HK\$2,075,000 as compared with HK\$2,407,000 for the corresponding period of 2020, which was mainly attributable to the absence of film distribution expenses during the Review Period.

Administrative expenses from the continuing operations for the Review Period amounted to HK\$9,893,000, representing an increase of HK\$1,270,000 as compared with HK\$8,623,000 for the corresponding period of 2020, which was mainly attributable to the increase in staff costs.

Other losses from the continuing operations for the Review Period of HK\$41,000 (three months ended 31 March 2020: HK\$55,000) were exchange differences.

Finance cost from the continuing operations for the Review Period amounted to HK\$4,000 (three months ended 31 March 2020: HK\$23,000). The Group does not have any loans and such finance costs represented the interest element on lease liabilities.

Profit from the continuing operations for the Review Period amounted to HK\$1,740,000, representing an increase of HK\$4,175,000 as compared with the loss of HK\$2,435,000 recorded for the corresponding period of 2020.

Loss from the discontinued operation for the Review Period amounted to HK\$7,519,000, representing an increase of HK\$2,939,000 as compared with HK\$4,580,000 for the corresponding period of 2020, which was mainly attributable to the increase in litigation expenses of 珠影文化產業園 (the “Pearl River Film Cultural Park”). For the details of the Pearl River Film Cultural Park litigations, please refer to the section headed “MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS” of this announcement.

Based on the above factors, the Group’s loss for the Review Period amounted to HK\$5,779,000. Such loss decreased by HK\$1,236,000 as compared with HK\$7,015,000 for the corresponding period of 2020.

BUSINESS REVIEW

CG Creation and Production

The revenue of the CG creation and production division of the Group was mainly generated from production services of animated films and television series, box office receipts and copyrights of original animated films as well as businesses derived from the intellectual property (IP) of animation.

From January to March 2021, the animation and television series production projects of the CG creation and production division included the entire production process for a cooperative local IP animated film, of which the pre-production was basically completed in the first quarter; the undertaking of the animation production for several episodes of an animated television series; and the film named “Journey to the Center of the Deep Ocean” newly produced from “Happy Little Submarine” series which is scheduled to be released in June 2021, and the film distribution is in progress.

The IP authorization for animation field is fully expanded, and we also contracted with a local high-end food brand company to jointly build a market for the maternal and child food. Besides, we developed a new model of online and offline experience stores with various local distributors. We have enhanced our brand awareness by putting in more community effort.

New Cultural Space

The revenue of the new cultural space division of the Group was mainly generated from the property leasing and management business of GDC Building located in Shenzhen (“GDC Building”) and Foshan Digital Animation Industry Base* (佛山數碼動漫產業基地) as well as digital virtual characters production business.

Committing to a positive and iterative upgrade for the existing property bases in Shenzhen and Foshan can attract high-quality technologies and cultural and creative enterprises, which leads to a progressive formation of different industrial ecosystems such as animation, film and television, games, network products, and virtual interactions. GDC Building has formulated various preparatory measures in advance so as to ensure the stability of existing tenants and the occupancy rate, as well as continuously enrich the building's ancillary facilities and services to attract enterprises with fruitful cultural and technological contents. Foshan Digital Animation Industry Base* is proposed to be turned into Digital Animation Incubation Base* (數字動漫孵化基地) and a base of Live Streaming for Virtual Marketing* (虛擬人直播帶貨基地) with the utilization of its self-developed digital technology cloud platform for cloud data and information processing to provide professional operation and management services for the parks.

Leveraging on the cutting-edge technology in terms of original IP and interactive experience, the base and industrial model are used to conduct the expansion and deployment in areas such as education integrated complex, sports integrated complex, virtual museums and other business fields. Currently, we have signed letters of cooperation intent with local government bodies and organisations of Qingdao, Chengdu and other cities to jointly create a new cultural space and establish a regional headquarters as proposed in the culture and technology field.

With “activating digital economy with animation films and creating a new popular spot for urban culture” as the position of our local IP business, we have explored local IP in stages. We will make use of mascots, digital virtual characters, cultural and creative products, etc. to narrate Chinese stories, and we also plan to promote the cooperation with local governments for the development of digital virtual spokespersons, animated films, and cultural and creative derivative products. Currently, a number of local city governments have expressed their intentions to cooperate with us.

In terms of technology, application and exterior look, more user companies have placed their orders for digital virtual characters customization with our division. We will continue to expand customers in application areas such as creating local IP, promoting local characteristic economy, live streaming marketing and big data analysis.

Technology Research and Development

We continued to invest resources in technology research and development, and conducted research and development on practical application of game engines and real-time GPU with results. In order to further improve the automatic filing management in the production process and optimize the process, the Aline system was developed to provide commercialized solutions. Along with technological innovation as the core, we will target the audience with more focus by combining animation IP with technology, and expanding new interactive experiences online and offline.

Government Awards

In the first quarter, as for the government awards, Global Digital Virtual Reality Animation Content Production Center Industrialization Project* (環球數碼虛擬現實動漫內容製作中心產業化項目) has officially passed the acceptance of the Development and Reform Commission of Shenzhen Municipality; “Happy Little Submarine: 20000 Leagues under the Sea” was honored with “Award for Original Animation” (「原創動漫獎」) by Propagandizing Department of Shenzhen Municipal Committee* (深圳市委宣傳部); “Soldier Shunliu: The Hero Battle” was awarded with film distribution fund by Culture, Radio, Television and Sports Bureau of Nanshan District, Shenzhen Municipality* (深圳市南山區文化廣電旅遊體育局) and “Copyrighted Works Award” in The Ninth Shenzhen Copyright Gold Award by Shenzhen Copyright Society. Shenzhen Global Digital Television and Culture Company Limited* (深圳市環球數碼影視文化有限公司), an indirect wholly-owned subsidiary of the Company, has passed the annual review for the “National Animation Enterprise” (「國家動漫企業」). As for the intellectual property rights, five computer software work certificates have been obtained, and 13 of them are under application.

OUTLOOK

Apart from investment in the development of original films, we strive for high-quality production projects by effectively leveraging on the production capacity to maximize the overall economic benefits. We will actively utilize our own advantages in culture and technology, and IP popularity to cooperate with local governments and commercial institutions, which can promote the local IP, Cultural New Space, digital virtual characters and other businesses.

LITIGATIONS

Details of the business disputes between 廣東環球數碼創意產業有限公司 (“Guangdong GDC”), a non-wholly owned subsidiary of the Company, and 珠江電影製片有限公司 (“Pearl River Film Production”) in respect of the Pearl River Film Cultural Park and litigations resulted therefrom were reported in the preceding financial year. Updates are as follows:

1. In April 2019, Pearl River Film Production filed an action with the People’s Court of Haizhu District of Guangzhou City of the PRC (中國廣州市海珠區人民法院) (the “People’s Court of Haizhu District”), requiring Guangdong GDC to return the entire Pearl River Film Cultural Park and its facilities and related documents.

On 24 September 2020, the decision for the trial of first instance made by the People’s Court of Haizhu District was in favour of Pearl River Film Production. Guangdong GDC filed an appeal with the Intermediate People’s Court of Guangzhou City of Guangdong Province of the PRC (中國廣東省廣州市中級人民法院) (the “Guangzhou Intermediate People’s Court”) accordingly. The appeal case was proceeded by the Guangzhou Intermediate People’s Court on 14 January 2021.

On 8 February 2021, the Guangzhou Intermediate People’s Court made the final judgment in which the original judgment was upheld. The Group sought legal advice in this respect and was advised to deal with the judgment in accordance with the requirements under the relevant laws. Both parties have commenced to execute the judgment in April 2021.

As the Group had already derecognised the Pearl River Film Cultural Park as an investment property of the Group since 1 December 2018, the Board does not consider the judgment to have any material impact on the financial position and cash flow of the Group.

2. In April 2019, Pearl River Film Production filed an action with the Guangzhou Intermediate People's Court, requiring Guangdong GDC to pay the property occupation fee of the Pearl River Film Cultural Park and related interest for the period between 23 March 2016 and 22 March 2019 (which Pearl River Film Production estimated to be in the amounts of RMB148,745,800 and RMB9,593,000 for the property occupation fee and the related interest as of 22 March 2019, respectively).

On 30 December 2019, the decision for the trial of first instance was made by the Guangzhou Intermediate People's Court. According to the judgment, Guangdong GDC was required to pay the property occupation fee of the Pearl River Film Cultural Park and related interest for the period between 23 March 2016 and 11 September 2019 (RMB41,656,989 and RMB3,813,331, respectively).

Each of Pearl River Film Production and Guangdong GDC filed an appeal with the Higher People's Court of Guangdong Province of the PRC (中國廣東省高級人民法院) (the "Guangdong Higher People's Court"). The appeal case was proceeded by the Guangdong Higher People's Court on 8 December 2020.

On 16 April 2021, a civil judgment from the Guangdong Higher People's Court dated 30 March 2021 was handed down to Guangdong GDC. According to the civil judgment, the judgment from the Guangzhou Intermediate People's Court was set aside and the case shall be returned to the Guangzhou Intermediate People's Court for re-trial.

3. In April 2019, Pearl River Film Production filed an action with the People's Court of Haizhu District, requiring Guangdong GDC and 廣州高尚商業經營管理有限公司 ("Gaoshang Property Management") to pay the property occupation fee of the car park of the Pearl River Film Cultural Park in an amount of RMB26,457,900 and related interest for the period between 1 August 2015 and 21 June 2018 (which Pearl River Film Production estimated to be in the amount of RMB2,520,062 for the interest as of 27 March 2019).

On 30 April 2020, the decision for the trial of first instance was made by the People's Court of Haizhu District. According to the judgment, Guangdong GDC and Gaoshang Property Management were required to pay the property occupation fee of the car park of the Pearl River Film Cultural Park (RMB3,854,363) and related interest for the period between 1 August 2015 and 21 June 2018.

Each of Pearl River Film Production as well as Guangdong GDC and Gaoshang Property Management filed an appeal with the Guangzhou Intermediate People's Court. The Guangzhou Intermediate People's Court made the final judgment on 27 September 2020 in which the original judgment was upheld. The judgment was enforced by both parties in November 2020 and the frozen bank accounts of Gaoshang Property Management were released. The case proceedings were concluded.

Subsequently, Guangdong GDC and Gaoshang Property Management received the Notice of Respondence to Civil Re-trial Petitions (民事申請再審案件應訴通知書) from the Guangdong Higher People's Court dated 8 March 2021, in which Pearl River Film Production has applied for setting aside of the abovementioned final judgment, and initiated a re-trial of the legal proceedings.

4. In April 2021, Guangdong GDC as the plaintiff has initiated legal proceedings against Pearl River Film Production as the defendant, claiming for the (i) return of capital contribution invested in the construction for the Pearl River Film Cultural Park and the related interests in the amount of approximately RMB240,000,000 and RMB54,900,000, respectively, and (ii) compensation on losses of RMB20,000,000 borne by Guangdong GDC arising from the said investment due to breach of contract by Pearl River Film Production. It was set out in the Notification of Acceptance that the Guangzhou Intermediate People's Court has accepted the filing of such civil action.

Should there be any significant update, the Company will make timely disclosure on the respective websites of the Stock Exchange and the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2021 (three months ended 31 March 2020: Nil).

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2021.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules throughout the three months ended 31 March 2021.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2021.

AUDIT COMMITTEE

The Group's first quarterly results for the three months ended 31 March 2021 were unaudited. The Company's audit committee together with the management have reviewed the unaudited first quarterly results of the Group for the three months ended 31 March 2021.

APPRECIATION

On behalf of the Board, I would like to extend our sincere gratitude to our shareholders, business partners and clients for their utmost support to the Group. I would also like to take this opportunity to extend my gratitude and appreciations to management members and all of the staff for their hard work and dedication throughout the period.

By Order of the Board
Cheng Xiaoyu
Chairman

Hong Kong, 7 May 2021

As at the date of this announcement, the Board comprises Ms. Cheng Xiaoyu (Chairman), Mr. Wang Hongpeng (Managing Director), Mr. Xu Liang and Mr. Xiao Yong as Executive Directors; Mr. Chen Zheng (Deputy Chairman) as Non-executive Director; Prof. Japhet Sebastian Law, Mr. Lam Yiu Kin, Mr. Zheng Xiaodong and Mr. Li Yao as Independent Non-executive Directors.

This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.gdc-world.com.