2018
ANNUAL REPORT

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)

* *For identification purpose only*

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MISSION STATEMENT

We are the pioneers in a new technology and industry. There are many problems and difficulties in our way. We will conquer and overcome. We believe our future will rest on the people that we train and nurture today. Together working as a team, we will build and lead the digital media industry in Asia.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Cheng Xiaoyu
(Chairman and Managing Director)
(appointed as Chairman on 21 July 2018 and as Managing Director on 11 December 2018)
Mr. Jin Guo Ping *(Deputy Managing Director)*
Mr. Xu Liang
(ceased to be Chairman on 21 July 2018)

Non-executive Directors

Mr. Chen Zheng *(Deputy Chairman)*
(re-designated as Deputy Chairman and Non-executive Director on 11 December 2018)
Mr. Leung Shun Sang, Tony
(retired on 18 May 2018)

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin

EXECUTIVE COMMITTEE

Ms. Cheng Xiaoyu *(Chairman)*
(appointed as Chairman on 21 July 2018)
Mr. Jin Guo Ping
Mr. Xu Liang
(ceased to be Chairman on 21 July 2018)
Mr. Chen Zheng
(ceased to be a member on 11 December 2018)

AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin

NOMINATION COMMITTEE

Ms. Cheng Xiaoyu *(Chairman)*
(appointed on 21 July 2018)
Mr. Xu Liang
(ceased to be Chairman on 21 July 2018)
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin
Mr. Leung Shun Sang, Tony *(Vice Chairman)*
(retired on 18 May 2018)

REMUNERATION COMMITTEE

Prof. Japhet Sebastian Law *(Chairman)*
Ms. Cheng Xiaoyu *(Vice Chairman)*
(appointed on 21 July 2018)
Mr. Xu Liang
(ceased to be Vice Chairman on 21 July 2018)
Mr. Kwong Che Keung, Gordon
Mr. Lam Yiu Kin
Mr. Leung Shun Sang, Tony
(retired on 18 May 2018)

COMPLIANCE OFFICER

Ms. Cheng Xiaoyu
(appointed on 11 December 2018)
Mr. Chen Zheng
(ceased to be on 11 December 2018)

COMPANY SECRETARY

Ms. Kam Man Yi, Margaret

AUTHORISED REPRESENTATIVES

Ms. Cheng Xiaoyu
(appointed on 11 December 2018)
Ms. Kam Man Yi, Margaret
Mr. Chen Zheng
(ceased to be on 11 December 2018)

AUDITOR

Deloitte Touche Tohmatsu

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2112, 21/F, K. Wah Centre
191 Java Road
North Point
Hong Kong

STOCK CODE

8271

WEBSITE

www.gdc-world.com

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Cheng Xiaoyu, aged 52. Ms. Cheng was appointed as an Executive Director and the Vice President of the Company and a member of the Executive Committee of the Company in December 2014. In July 2018, Ms. Cheng was appointed as the Chairman of the board of Directors (the "Board") and the Executive Committee, the Chairman and a member of the Nomination Committee and the Vice Chairman and a member of the Remuneration Committee of the Company. Ms. Cheng was appointed as the Managing Director of the Company in December 2018. Ms. Cheng graduated from The Graduate School of Xi'an Jiaotong University in 1988 and majored in linguistics and applied linguistics and holds a bachelor of arts. Ms. Cheng joined Shougang Group Co., Ltd. (formerly known as "Shougang Corporation") ("Shougang Group"), the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in August 1988 as an official translator. She currently serves as the deputy general manager of Shougang Holding and a director of Beijing Dongzhimen International Apartment Co., Ltd.. Shougang Group and Shougang Holding are the substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO"). She was the secretary to the board of directors and an assistant general manager of Shougang Holding. She was also an assistant to the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International"), a director of Shougang Concord Century Holdings Limited ("Shougang Century"), and an executive director and a deputy managing director of Shougang Concord Grand (Group) Limited ("Shougang Grand"), all of which are companies listed on the Stock Exchange.

Mr. Jin Guo Ping, aged 60, is a senior economist. He holds a master degree in business administration from China Europe International Business School. Mr. Jin was appointed as an Executive Director and Vice President of the Company in February 2006. He is also a member of the Executive Committee of the Company. Mr. Jin was re-designated from his position as the Vice President of the Company to the Deputy Managing Director of the Company in December 2018. Mr. Jin is an ordinary committee member of China Animation Association. Mr. Jin was a director of Shanghai Animation Film Studio, the chairman of Shanghai Cartoon Cultural Developing Co. Ltd., a publisher of "Cartoon King" Magazine, the vice president of Shanghai Film Group Corporation, the vice chairman of Shanghai United Circuit Co., Ltd., a director of Shanghai Paradise Corporation Ltd., and the assistant director of broadcasting of Shanghai Television. Mr. Jin has extensive experience in animation and film industries. He was a member of the Shenzhen Committee of the Chinese People's Political Consultative Conference.

Mr. Xu Liang, aged 53, is a senior accountant, graduated from Fudan University and obtained a bachelor degree in statistics and a master degree in business administration from Tsinghua University. Mr. Xu was appointed as an Executive Director and the Chairman of the Board, the Chairman of each of the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company in June 2017. Mr. Xu ceased to be the Chairman of the Board, the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company and remained as an Executive Director and a member of each of the Executive Committee, the Nomination Committee and the Remuneration Committee of the Company in July 2018. Mr. Xu joined Shougang Group in 1988 and held various senior positions. He is the managing director of Shougang Holding, an executive director and the chairman of Shougang Grand and an executive director of Shougang International. Both Shougang Grand and Shougang International are listed on the Stock Exchange. Shougang Group and Shougang Holding are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Xu has extensive experience in management.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Chen Zheng, aged 59, is an engineer and senior economist. He holds a bachelor degree in chemical engineering and a master degree in business administration. Mr. Chen was appointed as an Executive Director and the Chief Executive Officer of the Company in February 2005. He was re-designated as the Deputy Chairman of the Board and a Non-executive Director of the Company in December 2018. Mr. Chen had been appointed as the managing director of operations of Shougang Grand. He has extensive experience in investing business and corporate management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Che Keung, Gordon, aged 69. Mr. Kwong was appointed as an Independent Non-executive Director of the Company in April 2003. He is also the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies including NWS Holdings Limited, OP Financial Limited (formerly known as "OP Financial Investments Limited"), China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Group Holdings Limited, Chow Tai Fook Jewellery Group Limited and FSE Services Group Limited (formerly known as "FSE Engineering Holdings Limited"). He is an independent non-executive director of Piraeus Port Authority S.A., which is listed in Greece. He was an independent non-executive director of COSCO SHIPPING Holdings Co., Ltd. and CITIC Telecom International Holdings Limited in the past three years. Mr. Kwong graduated from The University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was a partner of PriceWaterhouse Hong Kong from 1984 to 1998 and was an independent member of the Council of the Stock Exchange from 1992 to 1997, during which, he had acted as convener of both the compliance committee and the listing committee.

Prof. Japhet Sebastian Law, aged 67. Prof. Law was appointed as an Independent Non-executive Director of the Company in September 2008. He is also the Chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company. Prof. Law graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/ industrial engineering in 1976. He joined The Chinese University of Hong Kong in 1986 and retired in August 2012. Before retirement, he was a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Prof. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Prof. Law is active in public services and served as a member of the Provisional Regional Council of the Hong Kong SAR Government and various other committees. He is active on the boards of profit, non-profit and charitable organisations in Hong Kong and overseas. From July 2003 to February 2006, Prof. Law had also acted as an Independent Non-executive Director of the Company. He currently serves as an independent non-executive director of Tianjin Port Development Holdings Limited, Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Regal Hotels International Holdings Limited, Tianjin Binhai Teda Logistics (Group) Corporation Limited and Shougang Fushan Resources Group Limited, all of which are companies listed on the Stock Exchange. He was an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd. in the past three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Lam Yiu Kin, aged 64. Mr. Lam was appointed as an Independent Non-executive Director of the Company in July 2015. He is also a member of each of Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England & Wales, the Institute of Chartered Accountants in Australia and New Zealand and Hong Kong Institute of Certified Public Accountants ("HKICPA"), and a honorary fellow of The Hong Kong Polytechnic University. Mr. Lam was an Adjunct Professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from September 2014 to August 2016, and was a member of the Finance Committee of the Hong Kong Management Association. Mr. Lam has extensive experience in accounting, auditing and business consulting. Mr. Lam was a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. Mr. Lam graduated from The Hong Kong Polytechnic University with a higher diploma in June 1975. Mr. Lam currently serves as an independent non-executive director of Shougang Century, Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Company Limited, Spring Real Estate Investment Trust, Vital Mobile Holdings Limited, COSCO SHIPPING Ports Limited, Nine Dragons Paper (Holdings) Limited, WWPKG Holdings Company Limited, CITIC Telecom International Holdings Limited and Bestway Global Holding Inc., all of which are companies listed on the Stock Exchange. He was an independent non-executive director of Mason Group Holdings Limited in the past three years.

CHAIRMAN'S STATEMENT

On behalf of the Board of Global Digital Creations Holdings Limited (the "Company"), I herewith present to you the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

For the financial year ended 31 December 2018, the Group's continuing operations recorded HK$107,642,000 of total revenue and approximately HK$37,238,000 of gross profit, representing an increase of HK$26,880,000 and HK$32,309,000 respectively as compared to HK$80,762,000 of total revenue and HK$4,929,000 of gross profit for the corresponding period of the previous year. Consolidated profit after tax for the year from continuing operations amounted to approximately HK$9,684,000, representing an increase of HK$51,124,000 compared to that of last year, mainly benefiting from the projects produced by the CG creation and production division. However, the Group's profit after tax as a whole recorded a loss of HK$446,537,000, which was attributable to the derecognition of the investment property and the derecognition of revenue from the rental income and management fee of 珠影文化產業園 ("Pearl River Film Cultural Park") since 1 December 2018, and the additional provision and payables as a result. The reason and events leading to these adjustments as at 31 December 2018 are set out below and in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS – BUSINESS REVIEW AND OUTLOOK – Cultural Park" of this annual report, and as shown in details in the consolidated financial statements.

The principal activities of CG creation and production division for the year included undertaking subcontracting production projects and the production of the original project film series "Happy Little Submarine". Since 2017, international subcontracting production projects have been reduced sharply. With the production team's persistent efforts, we were successfully awarded with two large scale domestic subcontracting production projects for the year. In addition, the results of the original projects for the year were also encouraging. "Happy Little Submarine: 20000 Leagues under the Sea", the sixth film of the "Happy Little Submarine" series, was screened in June 2018 with box office receipt exceeding RMB72,000,000, which broke the historical box office record of this film series and refreshed the first day box office record; Apart from box office receipt, the film also brought other relevant income to the Group and received numerous awards from the government. The Group also hopes to deliver positive messages to younger generations through its original projects, develop proper values among children and strive to fulfill corporate social responsibilities. As a core business of the Group, the CG creation and production division has also been constantly exploring business opportunities. In December 2018, we introduced investors with whom we cooperate to construct a research and development, production and manufacturing base for the digital animation industry in Foshan with a view to enhance the effectiveness of the Group's digital animation production.

CHAIRMAN'S STATEMENT

The operating company, 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), which is our indirect non-wholly owned subsidiary, of an investment project, namely Pearl River Film Cultural Park Phase I, located in Guangzhou has been engaged in disputes with 珠江電影製片有限公司 ("Pearl River Film Production") in respect of the framework agreement on the reconstruction of the Pearl River Film Cultural Park*（《珠影文化產業園一改造建設合作框架協議》）and its supplemental agreements (collectively, the "Framework Agreement"), whereby Pearl River Film Production initiated legal proceedings against Guangdong Cultural Park. Subsequently, 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") granted a judgment of terminating the Framework Agreement as of 22 March 2016. Guangdong Cultural Park then lodged an appeal to set aside the judgement. In January 2018, 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") rejected the appeal lodged by Guangdong Cultural Park, and upheld the original judgement eventually. The judgment had not indicated the subsequent arrangement of Pearl River Film Cultural Park Phase I. Since then, Guangdong Cultural Park has conducted a series of negotiations with Pearl River Film Production. Currently, Guangdong Cultural Park has yet to reach a consensus with Pearl River Film Production. In order to eliminate the financial impact from the uncertainties of the operational terms of the project, the Company had derecognized Pearl River Film Cultural Park as an investment property since December 2018 and reflected changes in other relevant accounting treatments, including cessation of recognizing all revenue generated from Pearl River Film Cultural Park from 1 December 2018. Notwithstanding any of the above decision, the Board would like to emphasize that it did not represent the Group's intention to give up any of its rights and legitimate interests in Pearl River Film Cultural Park. Guangdong Cultural Park remains committed to negotiate with Pearl River Film Production over the operating terms of Pearl River Film Cultural Park or reasonable investment compensation in order to protect its rights and legitimate interests in Pearl River Film Cultural Park.

Although the future is full of challenges and changes, the Group will continue to adhere to the strategy of seeking progress while also maintaining a stable growth of its core business. Meanwhile, the Group will also explore new business opportunities to expand its income sources and enhance its financial performance, which will be beneficial to the Group's continuous business development in the future.

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 year.

Cheng Xiaoyu
Chairman and Managing Director

Hong Kong, 22 March 2019

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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, copyrights of animated television series, businesses derived from animation brands, productions of display videos for exhibitions, and property rental income.

In 2018, the animated film production projects undertaken by our CG creation and production division mainly came from China, including part of the intermediate production of several animated films and television series as well as one web animation. Our CG creation and production division also started pre-production work of an animated television series. For original film and television series projects, "Happy Little Submarine: 20000 Leagues under the Sea", the sixth film of the "Happy Little Submarine" series, was screened in China during the "1 June" International Children's Day 2018 time slot with box office receipt of over RMB72,000,000. The creation for the seventh film of the same series has also been activated by the division thereafter. Meanwhile, the second episode of the television animation, "Smart Shunliu – Eagle Boy", which was shown on video websites and domestic television channels, recorded satisfactory hit rate and television ratings. The series have cumulatively completed two animations with 104 episodes in total which began broadcasting on CCTV Channel 1 of CCTV in October and was ranked in the top 3 in terms of the same time-slot viewership among all television stations in the PRC. In addition, the division has co-invested and co-produced with a sizable PRC company that is experienced in intellectual toys for a new original sci-fi animation series, "星際車神", which is now in production. We look forward to capitalizing on the synergies generated from the strategic alliance between the two parties.

On 17 December 2018, the division and a wholly-owned subsidiary located in Foshan entered into a cooperation agreement with investors, pursuant to which, the parties shall cooperate to construct a research and development, production and manufacturing base for the digital animation industry in Foshan, namely, the Foshan Digital Animation Industry Base*（佛山數碼動漫產業基地）. With new technical processes and new computer hardware, the parties have preliminarily established a production team to undertake part of the production work of animated films and television series. Subsequently, we shall establish a production team of suitable size in accordance with the development needs of our creation and production business in order to enhance our competitive advantages in the industry.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production *(Continued)*

In 2018, our original projects won multiple awards for the division. The television animation "Smart Shunliu – Eagle Boy" which received the "Best Animated Works"(「最佳動漫作品」) award in the 3rd Animation Award of the Chinese Culture and Arts Government Awards (中國文化藝術政府獎第三屆動漫獎), was also recommended by the State Administration of Radio, Film and Television of China as "Excellent Domestic Television Animation for the Fourth Quarter of 2017"(「二零一七年第四季度優秀國產電視動畫片」) and was selected as one of the nominated works for the 25th Television Arts "Starlight Award"(第25屆電視文藝「星光獎」) in the television animation category of the China Radio, Film and Television Awards – Radio and TV Programme Award (中國廣播影視大獎 • 廣播電視節目獎) as well as "2018 Top 10 Animation IP with the most commercial value"(「二零一八年度最具商業價值十大動漫IP」) in the 3rd "Jade Monkey Award"(「玉猴獎」) in the China IP Industry Conference. The television animation "Smart Shunliu – Eagle Boy 2" received the "Excellent TV Cartoon" award in the 10th "Dynamic Golden Sheep" Excellent Work Support Plan (第十屆「動感金羊」優秀作品扶持計畫優秀電視動畫片), the Finalist Award of the "Cyber Sousa Award" at the 11th Xiamen International Animation Festival (第十一屆廈門國際動漫節「金海豚」動漫作品大賽入圍獎) and the "Copyright Application Award" in the 7th "Shenzhen Copyright Golden Prize"(第七屆「深圳版權金獎一版權運用獎」). The short film "過草地" received the First Class Award in the category of animated narrative short film (動畫敘事短片一等獎) at the "Me and My Motherland – Guangdong 2018 Socialist Core Values Animated Short Film Creation Activity" (「我和我的祖國一廣東2018年度社會主義核心價值觀動畫短片創作活動」). The animated movie "Happy Little Submarine" series was shortlisted in the "Outstanding Cartoon Character Design Category"(「卡通形象設計類優秀作品」) in the 2018 Marketing Conference of Cartoon Characters in China (二零一八中國卡通形象營銷大會), and "Happy Little Submarine: 20000 Leagues under the Sea" received "Jury Special Award"(「評委會特別獎」) in "Xinguang Award" China Xi'an 7th International Original Animation Competition (「新光獎」中國西安第七屆國際原創動漫大賽) and the "Copyright Application Award" in the 7th "Shenzhen Copyright Golden Prize"(第七屆「深圳版權金獎一版權運用獎」). The animation movie "Toy Guardians" was nominated for "Best Arts in Animation Movies"(「動畫電影類最佳美術獎」) of the 1st AniSpark Domestic Original Animation Gala of Sanwen Entertainment (三文娛第一屆AniSpark國產原創動畫盛典) and "Best Animated Movie"(「最佳動畫長片獎」) of the 15th China Animation & Comic Competition Golden Dragon Award (第15屆中國動漫金龍獎) respectively. In addition, a wholly-owned subsidiary of the Company, 深圳市環球數碼影視文化有限公司, received the "Excellent Creative Team Award"(「創作團隊優秀獎」) in the 10th "Dynamic Golden Sheep" Excellent Work Support Plan (第十屆「動感金羊」優秀作品扶持計畫優秀電視動畫片); while the division was awarded with a plate – "CCTV Animation Principal Production Base"(「央視動畫中期製作基地」).


Looking ahead, in addition to active involvement in the development of original movies and peripherals, the division will strive to secure production service for international and domestic projects. By effectively drawing upon its production capacity and human resources, the division is expected to maximize the overall efficiencies and achieve sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Training

Revenue from the CG training division for 2018 was lower than expected and the corresponding period last year. Although the Company has actively adjusted its business over the past few years, the number of students enrolled continued to decline. Given that the prospects for the animation training industry was not optimistic, the management decided to shrink the business starting from the third quarter by terminating marketing and promotional activities, reducing marketing personnel, retaining the necessary teachers for completing the services of the original classes and maintaining the operation of online education platform. The CG training division was merged into the CG creation and production division in the fourth quarter of 2018. In the future, it will mainly provide relevant training to internal personnel to cultivate animation production talents.

Cultural Park

On 16 March 2018, Guangdong Cultural Park received a civil judgment (the "Higher Court Civil Judgment") from the Guangdong Higher People's Court, which rejected the appeal lodged in November 2016 and upheld the original decision. Details of the litigation are set out in the announcements of the Company dated 12 April 2016, 21 October 2016, 16 December 2016 and 20 March 2018, and notes 16a and 42 of the consolidated financial statements in this annual report.

According to the Higher Court Civil Judgment, the Guangdong Higher People's Court rejected Guangdong Cultural Park's appeal and the decision (the "First Civil Judgment") of the Guangzhou Intermediate People's Court was upheld, which included, among others, the judgment that the Framework Agreement entered into between Guangdong Cultural Park and Pearl River Film Production as at 28 March 2007 should be terminated as of 22 March 2016; Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 (equivalent to approximately HK$3,172,000) during the period from 1 October 2015 to 21 March 2016 and that Pearl River Film Production is entitled to keep the RMB20,000,000 (equivalent to approximately HK$23,310,000) construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed. The Guangzhou Intermediate People's Court implemented the judgment at the end of April 2018 and subsequently released the frozen bank account. In light of the First Civil Judgment, the Group recognized an impairment loss on properties interest under construction of approximately HK$84,467,000, a write-off of construction deposit of approximately HK$23,310,000 and late payment surcharges for rental of approximately HK$3,172,000 during the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park *(Continued)*

Following the receipt of the Higher Court Civil Judgment, the management met with the representatives of Pearl River Film Production for preliminary discussion on 27 March 2018. During the meeting, the representatives of Pearl River Film Production indicated that they expected Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park, i.e. the undeveloped land, as soon as possible, and had further discussion on the future arrangement of Phase I of the Pearl River Film Cultural Park, i.e. the completed properties. After the meeting, the management and all shareholders of Guangdong Cultural Park met with the PRC legal advisor on 3 April 2018 for legal advice. The PRC legal advisor recommended negotiating the overall arrangement of the Pearl River Film Cultural Park (both Phase I and Phase II) as a package, which all shareholders agreed and accepted. The management met with the representatives of Pearl River Film Production for the second time on 17 April 2018. At the meeting, the management presented its proposal of discussion as a package to the representatives of Pearl River Film Production and indicated its hope to reach a consensus as soon as possible in respect of continuing operation of Phase I of the Pearl River Film Cultural Park. However, Pearl River Film Production still insisted Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park first. After several discussions, the division returned a portion of the Pearl River Film Cultural Park, which had been used as parking space, to Pearl River Film Production in June 2018 and continued to negotiate with Pearl River Film Production for the overall arrangement of Phase I and Phase II of the Pearl River Film Cultural Park to express the sincerity of the Company for continuing operation of Phase I of the Pearl River Film Cultural Park. On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from the legal representatives of Pearl River Film Production demanding the delivery of the relevant properties of Pearl River Film Cultural Park and claimed for compensation of related occupation fees and economic loss totaling to approximately RMB143,076,000 (equivalent to approximately HK$169,521,000). Guangdong Cultural Park immediately sought the advice from the PRC legal advisor and requested to meet and negotiate with the representatives of Pearl River Film Production. Since then, Guangdong Cultural Park has conducted a series of negotiations with Pearl River Film Production, including the submission of written proposals to Pearl River Film Production. However, in the absence of any agreement, Pearl River Film Production attempted to seize Phase I of the Pearl River Film Cultural Park without the consent of the Group at the end of November 2018. After considering the attitude of Pearl River Film Production and uncertainties of the operational terms of Phase I of the Pearl River Film Cultural Park by the management, the Board, therefore, decided to derecognize Pearl River Film Cultural Park as an investment property of the Group in its accounts, and reflected changes in other relevant accounting, including derecognizing all revenue generated from Pearl River Film Cultural Park from 1 December 2018. In March 2019, Guangdong Cultural Park received a demand letter dated 7 March 2019 from Pearl River Film Production, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park and claimed for related occupation fee. Notwithstanding any of the above decision, the Board would like to emphasize that it did not represent the Group's intention to give up any of its rights and legitimate interests in Pearl River Film Cultural Park. Guangdong Cultural Park remains committed to continue the negotiation with Pearl River Film Production and finalize the operating terms of Phase I of the Pearl River Film Cultural Park or reasonable investment compensation in order to protect its rights and ligitimate interests in Pearl River Film Cultural Park.

MANAGEMENT DISCUSSION AND ANALYSIS

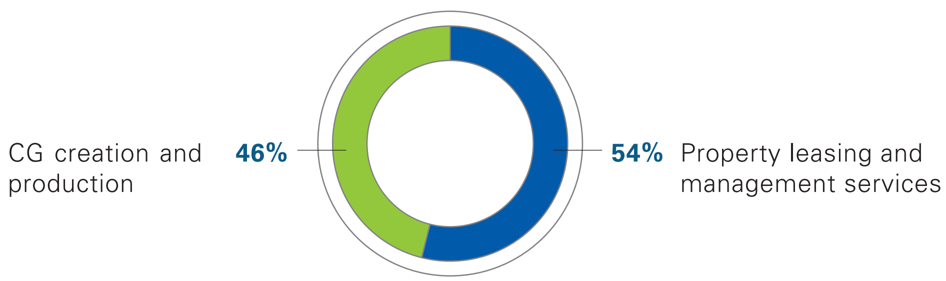
FINANCIAL REVIEW

For the year ended 31 December 2018, the Group generally recorded a loss attributable to owners of the Company of HK$300,541,000, as compared with the loss attributable to owners of the Company of HK$29,295,000 for the corresponding period of last year. Profit attributable to owners of the Company from the continuing operations for the year ended 31 December 2018 was HK$9,549,000, representing an increase of HK$50,917,000 in profit as compared with a loss of HK$41,368,000 for the corresponding period of last year.

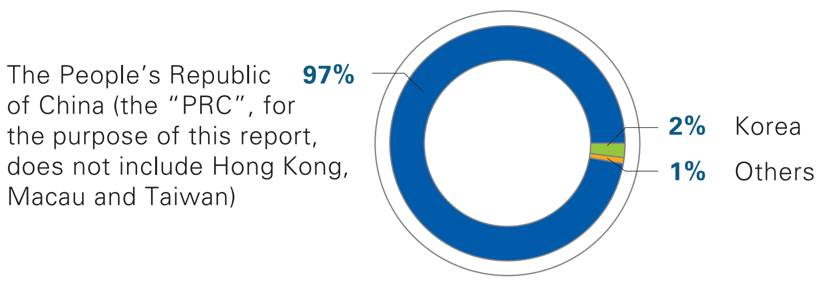
Given that (i) business performance of the CG training division has not been desirable over the past few years and it has been reduced significantly in the fourth quarter of the year to provide only in-house on-the-job training; (ii) the Cultural Park had derecognised the completed properties – Phase I of the Pearl River Film Cultural Park, the businesses of the CG training and the Cultural Park were classified as discontinued operations during the period under review. Loss from the discontinued operations for the year ended 31 December 2018 amounted to HK$456,221,000, as compared with a profit of HK$17,425,000 for the corresponding period of last year. Such loss was mainly attributable to derecognition of the Pearl River Film Cultural Park as the Group's investment property of HK$375,494,000, derecognition of all revenue of the Group from the Pearl River Film Cultural Park since 1 December 2018, and provision of HK$85,581,000 for the income received from the date of termination of the Framework Agreement to 30 November 2018 and its related expenses. The aforesaid derecognition of the investment property was non-cash in nature and would not have a significant impact on cash flow.

Revenue from the continuing operations for the year ended 31 December 2018 amounted to HK$107,642,000, representing an increase of HK$26,880,000 as compared with HK$80,762,000 for the corresponding period in 2017, of which the Group's revenue from CG production and original projects increased by HK$13,965,000 and HK$9,220,000 respectively as compared with the corresponding period of last year.

REVENUE BY PRINCIPAL ACTIVITY OF CONTINUING OPERATIONS FOR 2018



REVENUE BY GEOGRAPHICAL LOCATION OF CONTINUING OPERATIONS FOR 2018



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Cost of sales from the continuing operations for the year ended 31 December 2018 amounted to HK$70,404,000, representing a decrease of HK$5,429,000 as compared with HK$75,833,000 for the corresponding period in 2017, which was mainly attributable to the decrease in the cost of original projects. In addition, following the shrinkage of the training business in Shenzhen, the building space originally occupied by the training business was successfully leased out at the beginning of December 2018. As the proportion of the self-use space of the headquarters building decreased significantly, the building was reclassified as an investment property and accounted for at fair value, and provision for relevant depreciation or amortization of prepaid lease payments were no longer required ever since.

Other income from the continuing operations for the year ended 31 December 2018 amounted to HK$29,252,000, representing a significant increase of HK$14,599,000 as compared with HK$14,653,000 for the corresponding period in 2017, which was mainly attributable to the increase in government grants and interest income of HK$12,908,000 and HK$1,317,000 respectively during the year.

Distribution costs and selling expenses for the year ended 31 December 2018 amounted to HK$4,552,000, representing a decrease of HK$17,815,000 as compared with HK$22,367,000 for the corresponding period in 2017, which was mainly attributable to the significant decrease of promotion and distribution expenses for original projects during the year.

Administrative expenses for the year ended 31 December 2018 amounted to HK$41,285,000 (2017: HK$38,414,000), which was mainly attributable to the increase in staff costs.

Other gains and losses for the year ended 31 December 2018 was net gains of HK$351,000, mainly representing written-off of other payable.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had bank balances and cash of HK$273,133,000 (2017: HK$294,687,000), which were mainly denominated in Renminbi, United States dollars and Hong Kong dollars. There was no outstanding structured deposits as at 31 December 2018 (2017: HK$1,686,000). In addition, as the Group's restricted bank deposits were released in the second quarter of the year, the Group had no restricted bank deposits as at 31 December 2018 (2017: HK$46,253,000).

As at 31 December 2018 and 31 December 2017, the Group had no borrowings or overdrafts. The Group's current ratio was 1.41 (2017: 3.1), which was calculated based on current assets of HK$292,214,000 and current liabilities of HK$207,130,000. Such decrease was mainly attributable to the additional provision made by the Group as at the end of the year for the income received by the Cultural Park division from the date of termination of the Framework Agreement up to 30 November 2018.

The Group adheres to prudent financial management, and currently has sufficient cash on hand and bank balances. The management believes that the Group's financial resources are sufficient to meet its future working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK$434,421,000 as at 31 December 2018 (2017: HK$850,673,000). The decrease was attributable to loss attributable to owners of the Company for the year ended 31 December 2018 of HK$300,541,000, payment of a special dividend of HK$121,460,000 and exchange differences of HK$40,038,000 on translation of financial statements attributable to owners of the Company from functional currency to presentation currency, partially offset by the increase in investment property revaluation reserve of HK$45,787,000.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment for the year ended 31 December 2018.

CHARGE ON ASSETS

As at 31 December 2018, there were no charges on any of the Group's assets for loans and bank facilities.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi and incurs costs mainly in Renminbi and Hong Kong dollars. The Directors believe that the Group's operating cashflow and liquidity are not subject to significant foreign exchange risks, and thus has not implemented any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposure. As at 31 December 2018, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Save for the litigation disclosed in notes 16a and 42 to the consolidated financial statements, the Group had no significant contingent liabilities as at 31 December 2018.

EMPLOYEES

As at 31 December 2018, the Group employed 287 (2017: 397) full time employees (other than employees of the Group's associates). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

For the year ended 31 December 2018, neither the Company nor its subsidiaries had paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individuals.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2018, except for a deviation from the code provision A.2.1 of the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this code provision in that Ms. Cheng Xiaoyu, being the Chairman of the Board and an Executive Director, has been appointed as the Managing Director of the Company, who also performs the functions of the chief executive officer of the Company, since 11 December 2018. The Board believes that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being Independent Non-executive Directors.

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 year ended 31 December 2018.

BOARD OF DIRECTORS

Composition

As at 31 December 2018, the Board comprises seven members including three Executive Directors, Ms. Cheng Xiaoyu, Mr. Jin Guo Ping and Mr. Xu Liang; one Non-executive Director, Mr. Chen Zheng; and three Independent Non-executive Directors, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin. The Board is chaired by Ms. Cheng Xiaoyu and has a balanced composition of Executive Directors and Non-executive Directors such that there is a strong element of independence at the Board level, which facilitates independent judgment. All Directors have given sufficient time and attention to the affairs of the Group and the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the businesses of the Group. Details of backgrounds and qualification of the Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" of this annual report.

The Non-executive Director and the Independent Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but are not limited to:

- making an independent judgment at Board meetings;
- taking the lead where potential conflicts of interests arise;

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Composition *(Continued)*

- serving on Board committees if invited; and
- scrutinising the Company's performance.

To the best of the knowledge of the Company, the Directors have no financial, business, family or other material/relevant relationships with each other.

Role and Functions

The Board is responsible for overall strategy formulation, overseeing the risk management and internal control system on ongoing basis and monitoring performance of the Group. It delegates day-to-day operations of the Group to the Executive Committee within the control and authority framework set by the Board. In addition, the Board has delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Further details of these committees are set out in this corporate governance report.

Board Meetings and Attendance

The Board meets at least four times a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the bye-laws of the Company (the "Bye-laws").

The Company Secretary assists the Chairman in setting the agenda of each meeting and each Director may request inclusion of matters in the agendas. Generally, at least fourteen days' notice of a regular Board meeting is given and the Company endeavours to give reasonable notice for all other Board meetings. The Company also aims to send the agenda and the accompanying Board papers to all Directors at least three days before the intended date of a Board meeting. The accompanying Board papers are prepared in such form and quality so as to enable the Board to make an informed decision on matters placed before it.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board meetings' procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of the Board meetings and meetings of the Board committees. Drafts and final versions of which would be sent to the Directors for their comments and records respectively after the meetings. Minutes are recorded in sufficient detail relating to the matters considered by the Directors and decisions reached, including any concerns raised by the Directors or dissenting views expressed (if any). Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by the Directors.

If a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board (including material transaction with connected persons) which the Board has determined to be material, a physical Board meeting will be held instead of by way of written resolution to deal with the matter.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meetings and Attendance *(Continued)*

The Board held seven Board meetings during the year ended 31 December 2018. The Directors had made active contribution to the affairs of the Group and the Board meetings were held to consider, among other things, various projects contemplated by the Group, review the effectiveness of the risk management and internal control system of the Group, and to review and approve the quarterly results, interim results and annual results of the Group. The attendance records of the Board meetings and general meeting held in 2018 are set out below:

Name of Directors	**Number of meetings attended/ Number of meetings eligible to attend**	
	Board meetings	**General meeting**
Executive Directors		
Ms. Cheng Xiaoyu *(Chairman)*	7/7	1/1
Mr. Jin Guo Ping	7/7	1/1
Mr. Xu Liang	7/7	1/1
Non-executive Directors		
Mr. Chen Zheng *(Deputy Chairman)* *(re-designated on 11 December 2018)*	7/7	1/1
Mr. Leung Shun Sang, Tony *(retired on 18 May 2018)*	3/3	1/1
Independent Non-executive Directors		
Mr. Kwong Che Keung, Gordon	7/7	1/1
Prof. Japhet Sebastian Law	7/7	1/1
Mr. Lam Yiu Kin	7/7	1/1

Access to Information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, provide independent professional advice to the Directors to assist the relevant Directors in discharging their duties to the Company.

The Board is supplied with relevant information by the management pertaining to matters to be brought before it for decision making as well as reports relating to operational and financial performance of the Group at least three days before each Board meeting. All Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is supplied by the management, they have the right of separate and independent access to the Group's management to make further enquiries if necessary.

Appointment and Re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and retirement of Directors.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Appointment and Re-election of Directors *(Continued)*

According to the Bye-laws, any Director appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to the Board, until the next following annual general meeting of the Company, and shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director and Independent Non-executive Directors) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of the regulatory requirements. The Directors are regularly updated on the latest development of the GEM Listing Rules and other applicable statutory requirements to ensure compliance with the good corporate governance practice.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") in 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's businesses. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, race, language, cultural and educational background, experience (professional or otherwise), skills and knowledge. The Nomination Committee is responsible for reviewing the policy, developing and reviewing measurable objectives for implementing the policy and monitoring the progress on achieving these objectives. The Nomination Committee will review the policy and the measurable objectives at least annually to ensure the continued effectiveness of the Board.

Nomination Policy

The Board adopted a nomination policy (the "Nomination Policy") in December 2018. The Nomination Committee assists the Board in ensuring a formal, considered and transparent procedure for the appointment and re-appointment of Directors as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans and maintaining a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Nomination Committee shall consider the following criteria in assessing the suitability of a proposed candidate:

- diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience

- commitment in respect of available time and relevant interest

The Board has the ultimate responsibility for selection and appointment of Directors as permitted in the Bye-laws and shall have the final decision on all matters relating to its recommendation of candidate(s) to stand for election at any general meeting. The Nomination Policy shall be reviewed when necessary, and can be revised by the Board from time to time.

No candidate was nominated for directorship in 2018.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Directors' Continuing Training and Development

All Directors have participated in continuous professional development and provided to the Company a record of training which they received during the period from 1 January 2018 to 31 December 2018. According to the records provided by the Directors, a summary of the training received by the Directors is set out as follows:

Name of Directors	Attending or participating in seminars/workshops/ reading materials and updates relating to the latest development of the GEM Listing Rules and other applicable regulatory requirements
Executive Directors	
Ms. Cheng Xiaoyu *(Chairman)*	✔
Mr. Jin Guo Ping	✔
Mr. Xu Liang	✔
Non-executive Director	
Mr. Chen Zheng *(Deputy Chairman)*	✔
Independent Non-executive Directors	
Mr. Kwong Che Keung, Gordon	✔
Prof. Japhet Sebastian Law	✔
Mr. Lam Yiu Kin	✔

Directors' and Officers' Liability

Appropriate insurance cover on directors' and officers' liabilities are in force to protect the Directors and officers of the Group from their exposure to risk arising from the businesses of the Group.

CHAIRMAN AND MANAGING DIRECTOR

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman provides leadership for the Board and overall strategy formulation for the Group. The Chief Executive Officer has overall responsibility for the Group's business development and day-to-day management. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established and set out in writing. Mr. Xu Liang was the Chairman until 20 July 2018 and Ms. Cheng Xiaoyu was appointed as the Chairman from 21 July 2018. Mr. Chen Zhen served as the Chief Executive Officer of the Company until 10 December 2018 and Ms. Cheng Xiaoyu was appointed as the Managing Director of the Company with effect from 11 December 2018 and in such capacity, assume the responsibilities of the Chief Executive Officer of the Company. Currently, Ms. Cheng Xiaoyu is the Chairman and Managing Director of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND MANAGING DIRECTOR *(Continued)*

The Board believes that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being Independent Non-executive Directors.

With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate information, which must be complete and reliable in a timely manner.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Non-executive Directors (including Independent Non-executive Directors) provide a wide range of expertise and experience as well as checks and balances to safeguard the interests of the Group and its shareholders.

Pursuant to Rule 5.05 of the GEM Listing Rules, the Company has appointed three Independent Non-executive Directors. Two of the Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon and Mr. Lam Yiu Kin have appropriate professional qualifications on accounting or related financial management expertise. The Company has received from each Independent Non-executive Director an annual confirmation of his independence for the year ended 31 December 2018 pursuant to Rule 5.09 of the GEM Listing Rules and based on the contents of such confirmations, the Company considers that all Independent Non-executive Directors are independent during the year.

The Non-executive Director and all Independent Non-executive Directors were appointed for a specific term and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws. Details of the terms are set out in the section headed "REPORT OF THE DIRECTORS" of this annual report.

DELEGATION BY THE BOARD

Board Committees

The Board has established the following committees to oversee particular aspects of the Group's affairs and to assist in the execution of the Board's responsibilities. All committees have their own written terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Executive Committee

The executive committee of the Company (the "Executive Committee") was established in September 2007 and comprises all the Executive Directors. For the year ended 31 December 2018, the Executive Committee consists of three Executive Directors namely, Ms. Cheng Xiaoyu, Mr. Jin Guo Ping, Mr. Xu Liang and Mr. Chen Zheng (ceased to be a member on 11 December 2018). It was chaired by Mr. Xu Liang until 20 July 2018 and is chaired by Ms. Cheng Xiaoyu from 21 July 2018.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group.

Audit Committee

The audit committee of the Company (the "Audit Committee") was established in July 2003 with specific written terms of reference which set out its authorities and duties. The terms of reference of the Audit Committee are available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

The principal duties of the Audit Committee include:

- overseeing the relationship with the Company's auditor;
- reviewing the quarterly, interim and annual financial statements; and
- overseeing the Company's financial reporting system, risk management, internal control system and policies which include the whistleblowing policy reporting system.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and obtain external legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees of the Group and reasonable resources to discharge its duties properly.

The Audit Committee consists of three Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin. It is chaired by Mr. Kwong Che Keung, Gordon. None of the members of the Audit Committee are former partners of the auditor of the Company.

The Audit Committee held four meetings during the year ended 31 December 2018 with the Company's management and the internal audit manager, two meetings of which were held with the external auditor of the Company. The Audit Committee had, among others, recommended to the Board the amendments to the terms of reference and reviewed:

- the Group's internal control system and risk management;
- the final results of the Group for the financial year ended 31 December 2017;
- the quarterly results of the Group for the three months ended 31 March 2018;
- the interim results of the Group for the six months ended 30 June 2018; and
- the quarterly results of the Group for the nine months ended 30 September 2018.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Audit Committee *(Continued)*

The attendance record of the Audit Committee meetings held in 2018 is set out below:

Name of Directors	Number of meetings attended/ Number of meetings eligible to attend
Mr. Kwong Che Keung, Gordon *(Chairman)*	4/4
Prof. Japhet Sebastian Law	4/4
Mr. Lam Yiu Kin	4/4

For the year ended 31 December 2018, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor of the Company.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established in August 2003 with specific written terms of reference which set out its authorities and duties. The terms of reference of the Nomination Committee are available on the Stock Exchange's website and the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying and making recommendations to the Board suitable and qualified individuals nominated for directorships;
- making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist on the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be submitted to the Board for approval. The Nomination Committee will also take into account the Board Diversity Policy and the Nomination Policy when identifying suitably qualified candidates to become members of the Board. In addition, the Board reviews the Board Diversity Policy from time to time, so as to develop and review measurable objectives for implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

The Nomination Committee has explicit authority to seek any necessary information from the employees of the Group within its scope of duties and obtain external independent professional advice if it considers necessary.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee consists of five Directors, namely, Ms. Cheng Xiaoyu (appointed on 21 July 2018), Mr. Xu Liang, Mr. Leung Shun Sang, Tony (retired on 18 May 2018), Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin. It was chaired by Mr. Xu Liang until 20 July 2018 and is chaired by Ms. Cheng Xiaoyu from 21 July 2018. The Independent Non-executive Directors constitute the majority of the committee members.

For the year ended 31 December 2018, the Nomination Committee had, among others:

- recommended to the Board the appointment of new Chairman and the re-designation of Directors;
- recommended to the Board the amendments to the terms of reference and the adoption of nomination policy; and
- reviewed the structure of the Board taking into account the Board Diversity Policy.

The Nomination Committee held three meetings in 2018 and the attendance record is set out below:

Name of Directors	**Number of meetings attended/ Number of meetings eligible to attend**
Ms. Cheng Xiaoyu *(Chairman) (appointed on 21 July 2018)*	1/1
Mr. Xu Liang	3/3
Mr. Kwong Che Keung, Gordon	3/3
Prof. Japhet Sebastian Law	3/3
Mr. Lam Yiu Kin	3/3
Mr. Leung Shun Sang, Tony *(Vice Chairman)* *(retired on 18 May 2018)*	1/1

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established in July 2003 with specific written terms of reference which set out its authorities and duties. The terms of reference of the Remuneration Committee are available on the Stock Exchange's website and the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- reviewing and approving the Directors' remuneration proposals with reference to the Board's corporate goals and objectives;

- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of the Non-executive Directors and Independent Non-executive Directors;

- reviewing and approving the compensation payable to the Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman of the Board about its proposals relating to the remuneration of the Executive Directors. It has explicit authority to seek any necessary information from the employees of the Group within its scope of duties and obtain external independent professional advice if it considers necessary.

The remuneration policies applicable to the Directors and management of the Group are performance-based and in line with market practice. The Company reviews the remuneration packages annually taking into consideration market practice, the competitive market position and individual performances.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee consists of five Directors namely, Prof. Japhet Sebastian Law, Ms. Cheng Xiaoyu (appointed on 21 July 2018), Mr. Xu Liang, Mr. Leung Shun Sang, Tony (retired on 18 May 2018), Mr. Kwong Che Keung, Gordon and Mr. Lam Yiu Kin. It is chaired by Prof. Japhet Sebastian Law. The Independent Non-executive Directors constitute the majority of the committee members.

For the year ended 31 December 2018, the Remuneration Committee had, among others:

- determined the bonuses of the Executive Directors for 2018 and the salaries of the Executive Directors for 2019;
- made recommendations to the Board on fees for the Non-executive Director and Independent Non-executive Directors for 2019; and
- reviewed the terms of letter of appointment of a Non-executive Director.

The Remuneration Committee held two meetings in 2018 and the attendance record is set out below:

Name of Directors	**Number of meetings attended/ Number of meetings eligible to attend**
Prof. Japhet Sebastian Law *(Chairman)*	2/2
Ms. Cheng Xiaoyu *(Vice Chairman) (appointed on 21 July 2018)*	1/1
Mr. Xu Liang	2/2
Mr. Kwong Che Keung, Gordon	2/2
Mr. Lam Yiu Kin	2/2
Mr. Leung Shun Sang, Tony *(retired on 18 May 2018)*	1/1

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Company Secretary

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and Managing Director, and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis. In presenting the quarterly, interim and annual financial statements, announcements and other financial disclosures required under the GEM Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, on its reporting responsibilities on the consolidated financial statements of the Group is set out in the section headed "INDEPENDENT AUDITOR'S REPORT" on pages 59 to 65 of this annual report.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of the operations of the Group and to safeguard the Group's assets as well as the shareholders.

The Board is responsible for monitoring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organisational structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organisational structure, a reporting system has been developed under which the division head of each principal business unit reports to the Executive Committee directly.

Business plans and budgets are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews the monthly management reports on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. During such reviews, the Executive Committee also considers and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

Moreover, the Group has established "Whistleblowing Policy on Fraud", "Procurement Policy and Guideline" and "Delegation Policy" in order to strengthen its internal control system.

The Audit Committee assists the Board in fulfilling its role in overseeing over the Group's internal control function by reviewing and evaluating the effectiveness of the internal control systems.

The Company has set up an internal audit department (the "I.A. Department") which assists the Executive Committee and the Audit Committee in discharging their internal control duties. The I.A. Department, which is independent of the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The I.A. Department reports to the Executive Committee and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they remain effective in the dynamic and ever-changing business environment. During the year ended 31 December 2018, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the I.A. Department), continuously reviewing the effectiveness of the Group's internal control systems. The division head of each principle business unit and the Managing Director made representations as to compliance by themselves and their subordinates of key internal control systems for 2018 to the Board. The requirement for making representation letters by the management can strengthen individual responsibility for corporate governance and controls.

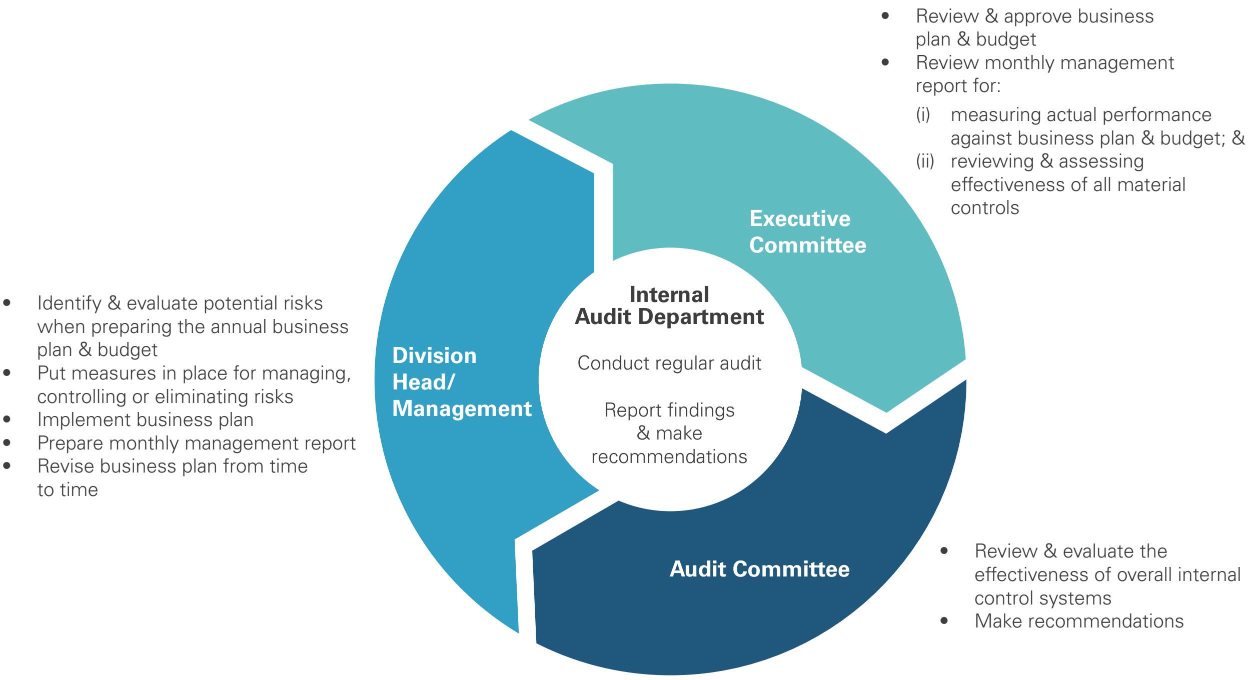
To comply with the code provision C.2.2 of the CG Code, the Board also included a review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, their training programmes and budget in its annual review for 2018.

In relation to the handling and release of inside information, the Group has established corresponding policies to restrict its employees from unauthorized use, handling or external release of the operating and financial information which is for internal use, to ensure the Group is in compliance with the relevant laws and regulations.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

Internal Control System



Internal Audit Functions

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT

Risk Management Framework

The Group has established an Enterprise Risk Management (ERM) framework to effectively identify, assess, and manage risks. Enterprise operates in environments where factors such as competition, restructurings, changing markets, and technology create uncertainty. Uncertainty comes from an inability to precisely predict the likelihood that events (risks) will occur and the associated impacts.

The ERM framework enables management to adopt a proactive and systematic approach for identifying and managing risks across the organization to evaluate risk impact and likelihood of occurrence. Risk managing workshops are conducted in each operating unit and an ERM Implementation Pack is prepared to guide the implementation of the risk managing work.

The objective of this ERM Implementation Pack is for establishing the Group's ERM framework and policies, including defining roles and responsibilities; providing key principles and concepts, a common language, and clear direction and guidance; and setting up a foundational basis needed to design and implement an ERM process that effectively addresses the Group's operations.

Risk Management Structure

The Board oversees the overall management of risks. The Risk Management Working Committee assists the Board and Audit Committee to review and monitor key risks. Operating units are responsible for the identification and management of risks in their operations.

Risk Management Process

By applying the principles and methodologies described in the ERM Implementation Pack, management develops five key steps for implementation.

(1) Objective setting is a precondition to event identification, risk assessment, and risk response. There must first be objectives before the management can identify and assess risks, and take necessary actions to manage the risks.

(2) Risks are identified at the entity, activity and process level by using various techniques.

(3) Risks are evaluated from two perspectives – likelihood and impact. Criteria are developed upon which identified risks will be measured in terms of likelihood and impact. Following this, risks will then be prioritized according to their "Risk Rating" which is the combination effect of "Likelihood" and "Impact".

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT *(Continued)*

Risk Management Process *(Continued)*

(4) In evaluating response options, the management considers the effect on both risk likelihood and impact, recognizing that a response might affect likelihood and impact differently. Having selected risk responses, management identifies control activities needed to ensure that the risk responses are carried out properly and in a timely manner. The effectiveness of the controls are assessed by using the three-point scale.

(5) A risk management report that highlights key risks and action plans is presented to the Audit Committee and the Board annually. Significant changes in key risks on a day-to-day basis are promptly reported to the Group's management and immediately handled.

Risk management changes over time. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or entity objectives may change. In the face of such changes, management continually works to improve the risk management framework in order to keep pace with the changing dynamics of businesses.

The Board has reviewed the risk management report of the Group for the year ended 31 December 2018 and the effectiveness of the Group's risk management system.

Key Risks of the Group

As an objective of risk management, we must first understand the key risks currently faced by the Group and the corresponding strategies against such risks. The table below sets forth the key risks facing by the Group currently:

Risk	**Corresponding Strategy**
Disputes with the contracted party occur in one cultural park development. This might have significant impacts on the Group's asset value and profit.	We have arranged further discussion with the contracted party aiming to achieve the best operation conditions for the phase completed of the cultural park.
To protect the Group's intellectual property rights and also to avoid unintentional infringement of others'intellectual property rights.	We register copyrights once after the completion of images, innovative designs, texts and graphics and require the related parties to sign a confidentiality agreement. We closely monitor if there is any infringement of the Group's intellectual property rights in the market while avoiding unintentional infringement of others' intellectual property rights.
Sustainability of income generation from CG creation and production	We deploy sufficient resources for creation and production. We prioritize projects and endeavor to ensure the sustainability of business through outsourcing the creation and production process. We also maintain good relationship with customers.
Integrity and availability of online data	Strict implementation of a comprehensive data back-up system. We ensure the effective operation of the back-up servers and back-up systems. We regularly offer training on data management and data safety in order to raise the awareness of staff.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Statutory audit services	2,230
Non-statutory audit services:	
Review on interim financial report	424
	2,654

COMMUNICATION WITH SHAREHOLDERS

To foster effective communication with the shareholders of the Company (the "Shareholders"), the Company provides extensive information in its annual, interim and quarterly reports, announcements and circulars. All Shareholders' communications are also available on the Company's website.

The general meetings of the Company provide a useful forum for Shareholders to exchange views with the Board. The Directors and members of various Board committees will attend the annual general meeting of the Company to answer questions raised by the Shareholders. All Directors will make an effort to attend. The Company's external auditor, where appropriate, is available to answer Shareholders' queries at the general meetings.

SHAREHOLDERS' RIGHTS

All notices of general meetings despatched by the Company to its Shareholders for meetings were sent in the case of annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings.

Voting at general meetings of the Company is conducted by way of poll in accordance with the GEM Listing Rules and the Bye-laws. The detailed procedures for demanding and conducting a poll will be explained by the Chairman at general meetings. The poll results will be published on the Stock Exchange's website and the Company's website.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Convening Special General Meeting and Putting Forward Proposals at General Meeting

Pursuant to the Bye-laws, any one or more Shareholder(s) holding (at the date of deposit of the requisition) not less than one-tenth of the paid up capital of the Company with the right to vote at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary by mail to the Company's head office and principal place of business in Hong Kong, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may at any time send their enquires and concerns to the Board in writing, addressed to the Company's head office and principal place of business in Hong Kong.

Procedures for Shareholders to Propose a Person for Election as a Director

When proposing a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out under the "Corporate Governance" section on the Company's website.

Constitutional Documents

There was no change to the Bye-laws during the financial year ended 31 December 2018. A copy of the latest consolidated version of the Bye-laws has been published on the websites of the Stock Exchange and the Company.

Dividend Policy

The Board adopted a dividend policy in December 2018, which aims to allow Shareholders to participate in the Company's profits whilst maintaining the adequate cash reserves for the Company's continuing business development and future growth. Any dividends will be declared or paid at the discretion of the Board pursuant to the Companies Act 1981 of Bermuda and the Bye-laws and will depend upon, among other things, the operations, capital requirements and surplus, general financial condition, contractual restrictions of the Company and its subsidiaries, and such other factors as the Board may deem relevant. This policy shall be reviewed when necessary, and can be revised by the Board from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

FOREWORD

The Company is one of the leading integrated cultural creative companies in the industry. Adhering to our sustainable development philosophy and operating principles, we establish good environmental, social and corporate governance policies, endeavour to fulfil our corporate social responsibilities and contribute to the development of green digital technology. This Environmental, Social and Governance Report of the Group gives an account of the Group's policies and overall performance in respect of environment protection, operation management, social welfare and working environment for the year ended 31 December 2018, and it covers the office operations of the headquarters of the Group and its principal subsidiaries as well as property management division, which has been approved and confirmed by the Company's management and the Board. The Group mainly adopts the reporting principles and basis set out in the "Environmental, Social and Governance Reporting Guide" ("ESG Guide") in Appendix 20 to the GEM Listing Rules.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We believe that the opinions of our stakeholders can contribute to the sustainable development of the Group. Therefore, we appropriately communicate with our stakeholders and promote the participation of stakeholders through different forms and channels of communication. The following are the main categories of stakeholders and communication channels:

Stakeholder	Communication Channel
Shareholder	• Company website • Quarterly, interim and annual reports • Announcements and circulars • General meetings
Employee	• Employees' activities • Staff communication • Regular meetings/training courses
Client	• Daily operation/communication • Regular meetings and visits • Regular client surveys
Supplier	• Procurement process • Daily operation/communication • Regular review and evaluation
Government and regulatory authorities	• Regular performance reports • Email, letter and phone contact • Occasional face-to-face meetings and visits
Community	• Exchange and study tours • Public welfare activities • Online media

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(Continued)*

The Group determines the scope of its environmental, social and governance disclosures in accordance with the requirements of the ESG Guide. The management identified and assessed major issues after considering the Group's business operations and the standards adopted by the industry. The impact of these material issues is assessed on the basis of their importance to the sustainable development of the Group and its stakeholders. The relevant assessment is related to the current development stage of the Group or may change in the future. Details of the Group's governance disclosure are set out in the section headed "CORPORATE GOVERNANCE REPORT" of this annual report.

The list of important environmental and social issues that the Group has identified is as follows:

Aspect	Category	Issue
Environmental		Emissions
		Use of Resources
		Environment and Natural Resources
Social	Employment and Labour Practices	Employment and Labour Standards
		Health and Safety
		Training and Development
	Operating Practices	Supply Chain Management
		Product and Service Liability
		Protection of Stakeholders' Information
		Anti-corruption
	Community	Community Investment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

In the past two decades, problems of global warming and continuous abuse of natural resources have become increasingly severe. As a responsible enterprise, the Group has reduced its impact on the environmental and natural resources arising from its operations, through adjusting the management on its operation model and adopting more eco-friendly operational measures. In addition, the Group has encouraged its employees to reduce emission and waste as well as make good use of resources, no matter at work or at home, to put our best efforts to protect the environment.

The Group strictly abides by the regulations and laws related to environmental protection applicable to its operations. It has established an internal "Environmental Policy of Energy Saving and Reducing Unnecessary Consumption" in accordance with all local regulations and laws of cities where its operations are located, including "Guidelines for Accounting and Reporting of the Greenhouse Gas Emissions for Industrial Enterprises", "Environmental Protection Law of the PRC" and "Water Pollution Prevention and Control Law of the PRC". Such internal policy covers guidelines on usage of resources and energy, and disposal and recycling of waste. In 2018 and 2017, the Group was not aware of any material non-compliance with environmental regulations and laws.

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED

The Group recognizes that efficiency in energy consumption will not only protect the environment but also reduce its operating cost. Therefore, the Group is continuously committed to promote the reduction of electricity, paper and water consumption during its regular operation, and to create a low carbon workplace. The Group also endeavours to raise its employees' awareness of climate problem and lack of natural resources, and encourages them to incorporate environmental concerns and resource-saving attitude into their lifestyle, which will have a wider and more positive impact. The Group strives to implement the "Green Planting Campaign" including plant setting and installation of "Green Knowledge" bulletin boards in our offices; and green procurement was implemented. Our employees were encouraged to participate in environmental protection activities such as waste separation and tree planting, in order to promote the importance of environmental conservation.

Energy-saving Measures

The following energy-saving measures were adopted in the Group's ongoing operations in supporting environmental protection.

In the GDC Building (the "Shenzhen Building") of the Group located in Shenzhen, only two elevators were in service at weekends while others were shut down. Air-conditioners of elevators were only operated during office hours in the summer and air-conditioners in the elevators machine room were only switched on automatically when the room temperature was too high. Sensor lights were installed in public corridors of the Shenzhen Building and the number of lamps installed was reduced in order to reduce consumption of fuel for electricity generation. Variable frequency pumps for domestic water were used to save energy. Moreover, turn-on hours of decorative lights of the Shenzhen Building and operating hours of the landscaped pool were adjusted to further reduce consumption of electricity. In response to the call of developing clean energy vigorously with an aim to reduce carbon emissions from the State, we currently have three new energy recharging facilities for vehicles in the car park of the Shenzhen Building.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED *(Continued)*

Energy-saving Measures *(Continued)*

Sensors were installed in elevators and at escalators in the Group's Cultural Park located in Guangzhou (the "Cultural Park") to allow the elevators and escalators to stop automatically or decelerate when they were not in use so as to achieve energy saving.

Offices at different locations were installed with LED lighting and energy saving lighting and the lighting systems of office areas were required to shut down during non-office hours. Temperature of air-conditioning of each office was pre-set at 25.5˚C and automatic power shutdown function of air-conditioners was applied during non-office hours. Energy-saving function of computer systems was utilised while optimising the rendering devices in central engine rooms and applying auto-shutdown or sleeping mode for servers when not in operation. During the year, we have achieved results in energy saving as indirect energy consumption of electricity usage was reduced. Employees were encouraged to make good use of telephone or video conferences so as to reduce carbon emission from business trips.

Saving Papers

One of the goals of the Group in promoting environmental protection is to become a paperless office. The Group continues to advocate sending e-bills and e-notices to its tenants and students to save papers. By implementing e-filing and e-approval instead of in paper form, applying double-sided printing and paper recycling, and adopting e-communication, the Group has reduced the use of papers and stationeries and hence, indirectly avoided emission of greenhouse gases in its operation process. The operational efficiency has been enhanced after applying e-approval procedure due to less onerous procedures among departments and improved environmental performance, comparing to traditional approval in paper form, and thus enhanced the benefits to the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED

(Continued)

The figures of 2018 and 2017 below cover the area of our offices in Hong Kong Headquarters, the Shenzhen Building and the Cultural Park:

Pollutants	**2018** ***g***	2017 *g*
Vehicle teams of the Group		
Nitrogen oxides	**8,921.76**	8,038.92
Sulfur dioxide	**152.00**	156.97
Particulates	**656.89**	591.89

Greenhouse Gases Emissions	**2018** ***tonne***	2017 *tonne*
Direct Emission (Scope 1)		
Vehicle teams of the Group	**28.00**	28.92
Refrigerants	**267.38**	138.00
Indirect Emission (Scope 2)		
Electricity	**1,460.56**	1,833.80
Indirect Emission (Scope 3)		
Paper consumption	**17.40**	13.11
Business travel *(Note 1)*	**97.96**	127.38
Total greenhouse gases emission saved from recycling papers	**(2.81)**	(5.80)
Total emission of greenhouse gases	**1,868.49**	2,135.41
Total emission of greenhouse gases per square metre of floor area *(tonne/m^2)*	**0.22**	0.25

Energy Consumption	**2018**	2017
Direct energy consumption – Gasoline *(litre)*	**10,340.25**	10,678.40
Direct energy consumption per employee – Gasoline *(litre) (Note 2)*	**32.21**	26.90
Indirect energy consumption – Electricity *(KWh)*	**1,594,210.00**	2,000,476.00
Indirect energy consumption per employee – Electricity *(KWh) (Note 2)*	**4,966.39**	5,038.98

Notes:

1 The calculation of such emission is based on the emission factor used in ClimateCare Carbon Emissions Calculator.

2 In 2018, the Group reduced its manpower due to business adjustments, so the number of employees used to calculate such energy consumption is the weighted average of the total number of employees at the end of each quarter, i.e. 321 persons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED
(Continued)

Waste Management

In 2018, the Group has continued to implement the "Provisions of Classification and Reduction of Domestic Waste" in the Shenzhen Building according to the "Measures of Administrating Classification and Reduction of Domestic Waste of Shenzhen" issued by the Shenzhen Urban Management Bureau. Waste separation bins were placed and harmless waste were properly recycled. Meanwhile, offices at various operating locations purchased eco-friendly stationeries and implemented measures including double-sided printing, recycling papers and toner cartridge recycling scheme. E-filing has been encouraged so as to reduce the consumption of papers and toners and thus reduce waste.

In 2018 and 2017, the Group has not used any packaging materials for its finished goods and has not produced any harmful waste.

	Hong Kong Headquarters		The Shenzhen Building		The Cultural Park	
	2018	2017	**2018**	2017	**2018**	2017
Waste	***tonne***	*tonne*	***tonne***	*tonne*	***tonne***	*tonne*
Non-hazardous Waste						
Domestic waste	**1.10**	1.00	**9.00**	7.00	**4.00**	2.00
General office waste	**0.12**	0.12	**0.75**	0.25	**0.10**	0.10
Paper	**0.04**	0.10	**0.34**	0.26	**0.20**	0.30
Plastic	**0.01**	0.02	**0.07**	0.06	**0**	0
Wooden board	**0**	0	**0.06**	0.09	**0**	0
Glass	**0.01**	0.01	**0.05**	0.06	**0**	0

	2018	2017
Total waste disposed to landfill per square metre of floor area *(tonne/m²)*	**0.002**	0.001

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED *(Continued)*

Water Usage Efficiency

In order to further enhance its water usage efficiency, the Group has installed automatic sensor faucets in the Shenzhen Building and substantially shortened the operating hours of its landscaped pool to save water. Further, the Group also has strengthened its checks for all the water valves and had regular overhauls in leak-proof water pipes of the Shenzhen Building to prevent the risk of leaking. By continuing to implement the above-mentioned water usage efficiency enhancement programme, the water consumption in 2018 decreased by 1,923 m^3 as compared to that in 2017.

Water Consumption	**2018**	2017
Total amount of water used *(m^3) (Note 1)*	**8,069.00**	9,992.00
Amount of water used per square metre *(m^3/m^2)*	**1.02**	1.26

Note:

1 As the headquarters of the Group operates in a leased office building, both supply and disposal of water are controlled by the property management office of the landlord, which considers it is impracticable to provide separate meter to measure water supply and disposal for individual tenants. Hence, the water consumption of the Group's headquarters is not included in such figures.

EMPLOYMENT AND LABOUR PRACTICES

The Group believes that employees are our momentum for innovation and also the keys to our operation and sustainable development, as well as our core competitive advantage. To maintain working team harmony and retain high-quality talent, we ensure all employees are treated with justice and fairness in terms of recruitment, opportunities of promotion and training, and remuneration and welfare, and are free from discrimination. Meanwhile, the Group is committed to provide a safe and healthy working environment and to safeguard basic rights of employees proactively, ensuring our employees are healthy both physically and mentally, which in turn enhances their working efficiency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Employment and Labour Standards

The Group recognizes the importance of employment issues and safeguards basic rights of employees, and also prepares and implements strictly its "Staff Handbook" and "Management System of Human Resources" in accordance with the relevant employment laws and regulations, including "Labour Law of the PRC", "Labour Contract Law of the PRC" and "State Council Interim Measures on Workers' Retirement, Resignation", as well as "Mandatory Provident Fund Schemes Ordinance" and "Rules in relation to jurisdiction under Family Status Discrimination Ordinance" of Hong Kong. Specific rules of recruitment, attendance, remuneration, welfare and others are detailed in the Group's "Staff Handbook" and "Management System of Human Resources". The Group will strive for the best to review the related policies regularly based on the changes of policies and the feedback conducted during the previous year. In addition, the Group takes the health and welfare of its employees seriously, and provides medical welfare to all qualified employees, such as subsidies for body checkup, provision of medical insurance and personal accident insurance, in order to enhance the sense of belonging of the employees to the Group.

During open recruitment, the Group strictly complies with relevant laws and regulations of the Mainland China and Hong Kong, and implements in accordance with the "Provisions on the Prohibition of Using Child Labour" issued by the State Council of PRC, "Labour Law of the PRC" and "Employment Ordinance" of Hong Kong, including the requirement of asking applicants to show their original identity cards to verify their age. For the years 2018 and 2017, the Group was not aware of any material noncompliance with relevant labour laws and regulations, including hiring child labour or forced labour.

As at 31 December 2018, the Group has 287 employees (2017: 397).

Gender and Age Distribution by Position

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
Manager or above						
2018	**34**	**20**	**14**	**0**	**29**	**5**
2017	39	26	13	0	34	5
General staff						
2018	**253**	**180**	**73**	**130**	**119**	**4**
2017	358	239	119	71	273	14

Employee Turnover

	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
New employees					
2018	**38**	**25**	**37**	**23**	**3**
2017	102	64	95	63	8
Employee turnover					
2018	**110**	**55**	**67**	**88**	**10**
2017	109	56	59	100	6

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Health and Safety

The Group strives to provide a safe and healthy workplace to its employees. We have established a policy or guideline of occupational health, in accordance with the "Law of the PRC on the Prevention and Control of Occupational Diseases", "Occupational Safety and Health Ordinance" of Hong Kong and other related laws. The Group has encouraged its employees to report to the administration department of the Group for any health and safety issues related to workplace that they are aware or concern of, so that such risks will be mitigated or reduced by the Group. The Group and its employees work together to build a healthy and safe working environment. In 2018 and 2017, the Group was not aware of any material non-compliance of standards, rules and regulations related to occupational health and safety.

The Group had adopted the following occupational health and safety measures:

- Purchasing ergonomic design furniture, locating copy machines and fax machines in separate areas, and procuring lightings suitable for reading, to reduce the risk of health hazard for employees;

- Providing different occupational health trainings for employees of different positions (including drivers and security guards);

- Arranging regular inspections on fire safety facilities (including installing fire distinguishers) in the offices and replacement of expired fire distinguishers;

- In addition to providing security guards with torches, alarms and other safety equipment, and providing training courses for security guards to enhance their awareness of self-safety, 4 of the security guards received the certificate of completion of the construction (structure) firefighters issued by a nationally recognized fire vocational training school during the year;

- Arranging regular overhauls for vehicles of the Company to ensure their proper functioning so as to safeguard the safety of drivers; and

- Organizing regular safety education seminars for tenants and employees and arranging fire trainings and drills.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Occupational Injury Data

	Male		Female		Overall	
	2018	2017	**2018**	2017	**2018**	2017
Number of staff involved in work-related fatalities	**0**	0	**0**	0	**0**	0
Lost days due to work-related accidents and occupational disease	**0**	0	**0**	0	**0**	0

The Group also pays attention to the employees' physical and mental health and actively encourages its employees to seek for a balance between work and life. The administration department of the Group organizes leisure and exercise activities for its employees regularly. A leisure area for its staff in the office of the Shenzhen Building was established, so that the staff from the creative department are able to find new inspiration at any time in the leisure area. Fitness and recreational facilities are also provided to allow its staff to lay down their jobs when necessary and take a break to "recharge" themselves before getting back to work.

Training and Development

We firmly believe that providing adequate training to our employees is critical to the growth of the Group. As a result, the Group has formulated the "Staff Training and Management Policy" to provide pre-employment or job-transfer professional training to new recruits and post-transfer staff to ensure their ability to cope with their job duties. Furthermore, the Group has organized a number of on-job training courses and seminars on different subjects for employees to share information and improve their skills so as to help them mastering the updates of the industry and their skill-sets. In addition, the Group will provide financial assistance for employees attending external training in response to their career development needs.

In 2018, the Group organized two training courses on the intellectual property and the interpretation of personal tax policies, involving more than 60 employees in each session.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

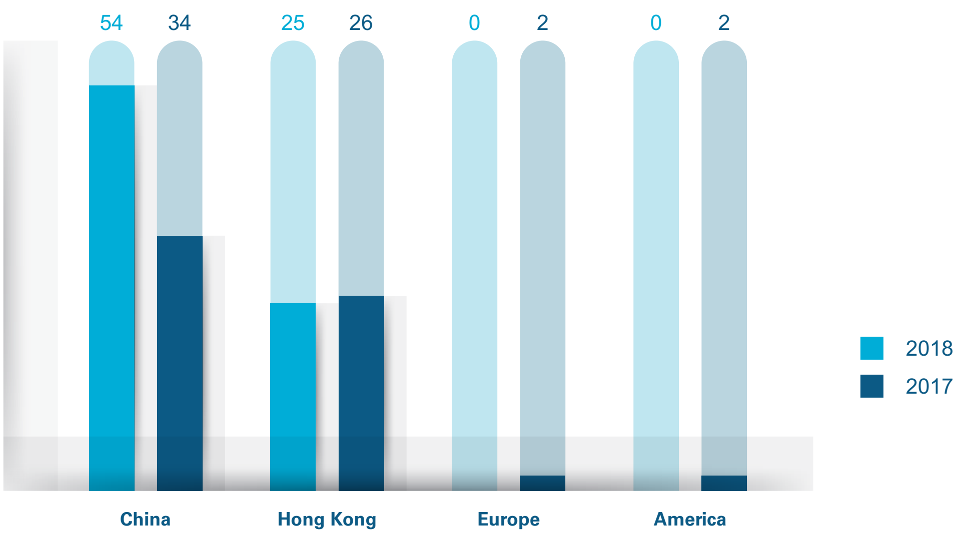
Supply Chain Management

The Group has formulated a sound and fair competitive procurement system, which determines the purchase of materials in the form of direct or price comparison based on the value of products or services. Suppliers are selected based on the quality and price of the products or services provided, in order to ensure that the products and services provided are of value for money, and at the same time, to reduce the possibility of fraud. In addition, suppliers are required to provide (if needed) legal certificates or licenses for the production and sales of products in order to ensure that the supply chain is safe, whether environmentally or otherwise.

In order to avoid bias in the selection of suppliers, our administration department has compiled the List of Appropriate Suppliers. This not only saves time and money in identifying suppliers and also ensures the quality of suppliers. At the same time, the Group carries out long-term quality monitoring and regular reviews against all its suppliers. If there is any significant changes in a supplier's qualification or serious quality problems arise, the Group will immediately stop purchasing products or services from that supplier.

In 2018, the Group had a total of 79 key suppliers (2017: 64). For the years 2018 and 2017, the Group was not aware that any key suppliers had any significant negative impact on business ethic, environmental protection, human rights and labour practices.

GEOGRAPHICAL DISTRIBUTION OF KEY SUPPLIERS



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES *(Continued)*

Product and Service Liability

As a company engaged in the cultural and creative industry, the Group recognizes the importance of putting effort to maintain and comply with intellectual property rights. Accordingly, the Group has formulated relevant internal measures and strictly implemented internal and external laws and regulations to prevent any inadvertent infringement of intellectual property rights of others in the process of creation, teaching and business operation. Furthermore, the Group applies for copyright registration for each original drama or film. In 2018 and 2017, the Group was not aware of any material non-compliance with relevant laws and regulations relating to its products.

The Group's property management division is constantly striving to provide tenants with high quality property management services by conducting regular surveys and visits to tenants to collect feedbacks to improve the property management solution. Regarding the complaints about products and services of the business, the Group has established procedures for handling complaints and has arranged dedicated staff to follow up on each individual case. In 2018 and 2017, as far as the Group is aware of, no significant complaints concerning the products or services have been received.

Protection of Stakeholders' Information and Privacy Policy

The Group exercises caution in its daily operations to safeguard stakeholders' personal data as well as uses and handles the stakeholders' personal data under the "Personal Data (Privacy) Ordinance" of Hong Kong accordingly, which includes setting up password as to the electronic document of stakeholders' data and the password will only be available to authorised employees. All of the stakeholders' personal data are only for commercial operation purposes of the Group and shall never be resold to any third parties. In addition, all employees have entered into a confidentiality agreement in order to regulate and limit the utilisation of the Company's data by employees, so as to further protect the personal data of the stakeholders.

ANTI-CORRUPTION

The Group strictly requires all Directors and employees to act based on ethical conducts, and prohibits all bribery, extortion, fraud and money laundering. In this respect, the Group has established the "Management System on Prevention from Commercial Bribery" and the "Whistleblowing Policy on Fraud" in accordance with the "Anti-unfair Competition Law" of the PRC and Anti-corruption Ordinance in Hong Kong to regulate and monitor the conduct and behavior of employees of the Group in ordinary operations.

Upon discovery of any misconduct by any colleague or superior, an employee may inform the Group's internal audit manager or the Audit Committee directly through email in accordance with the "Whistleblowing Policy on Fraud", and each whistleblowing email is only available to the internal audit manager or the Audit Committee. Upon receipt of such whistleblowing email, the internal audit manager will immediately initiate an investigation according to the procedures and report the findings to the Managing Director and the Audit Committee of the Group. In addition, the internal audit department regularly conducts internal sampling reviews regarding daily operations of the business divisions to reduce the risk of bribery, extortion, fraud and money laundering. In 2018 and 2017, the Group did not identify any significant risks associated with bribery and corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR COMMUNITY

The Group always stays proactive in supporting the charitable constructions of the communities where its operations are located, covering areas such as poverty alleviation, environmental education and culture and art. Our Group also encourages our employees to participate in all kinds of public welfare affairs and make contributions to the community.

In 2018, the Group, as in the past, hosted a number of student delegations from other provinces in China and Hong Kong to participate in the study tours for exchanging communication, and also participated in the summer camp organized by Shenzhen T&W Charity Foundation for children in the remote and poor areas. We showed the children how the pre-production of animation are created, who were attracted by the vivid and interesting process. In addition, our employees whose station in Shenzhen attended the public welfare protection plan of the "Retention of Changjiang's Smile"(《留住長江的微笑》) project under the "Changjiang Conservation Foundation" established by the "Alashan SEE Charity Organization" (「阿拉善SEE慈善組織」), in order to save the Yangtze finless porpoise.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 66 to 156 of this annual report.

On 20 July 2018, the Board resolved the declaration and payment of a special dividend of HK$0.08 per share of the Company (the "Special Dividend"), amounting to approximately HK$121,460,000 in total. The Special Dividend has been paid on 20 August 2018 to the Shareholders whose names appear on the register of members of the Company on 7 August 2018.

Apart from the above, the Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 are set out in the sections headed "CHAIRMAN'S STATEMENT" and "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 9 to 10, and pages 11 to 17 respectively of this annual report. The discussion forms part of this report of the directors.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published consolidated results and assets and liabilities of the Group for the last five financial years are set out on page 157 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the consolidated financial statements.

Particulars of the investment properties of the Group as at the end of the reporting period are set out on page 158 of this annual report.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 70 to 71 of this annual report.

DIRECTORS

The Directors during the year were as follows:

Ms. Cheng Xiaoyu
Mr. Jin Guo Ping
Mr. Xu Liang
Mr. Chen Zheng#
Mr. Kwong Che Keung, Gordon*
Prof. Japhet Sebastian Law*
Mr. Lam Yiu Kin*
Mr. Leung Shun Sang, Tony# *(retired on 18 May 2018)*

Non-executive Director
* Independent Non-executive Director

In accordance with clause 87(2) of the Bye-laws, Mr. Jin Guo Ping, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 6 to 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Cheng Xiaoyu and Mr. Jin Guo Ping has entered into a service contract with the Company for a term of three years commencing from 1 January 2017 while Mr. Xu Liang has entered into a service contract with the Company for a term commencing on 14 June 2017 and ending on 31 December 2019.

Mr. Chen Zheng has entered into a letter of appointment with the Company for a term of one year commencing from 11 December 2018.

Each of Mr. Kwong Che Keung, Gordon and Prof. Japhet Sebastian Law has entered into a letter of appointment with the Company for a term of three years commencing from 1 January 2017 while Mr. Lam Yiu Kin has entered into a letter of appointment with the Company for a term of three years commencing from 1 January 2018.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS *(Continued)*

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

The emoluments of the Executive Directors are determined by the Remuneration Committee with delegated responsibility regards to their experience, duties, performance and the prevailing market conditions. The remuneration of the Non-executive Director and Independent Non-executive Directors are recommended by the Remuneration Committee and approved by the Board. No Directors are involved in deciding their own remuneration.

The Group offers competitive remuneration packages, including medical and retirement benefits, to eligible employees. Apart from a basic salary, the Executive Directors and employees are eligible to receive a discretionary bonus taking into account the factors such as market conditions as well as corporate and individual's performance during the year.

The Group has adopted a share option scheme as an incentive to the Directors and eligible employees, details of which are set out in "SHARE OPTION SCHEME" below and note 34 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

		Number of shares/underlying shares held in the Company			
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests under equity derivatives**	**Total interests**	**Approximate percentage of total issued share capital of the Company**
Mr. Chen Zheng	Beneficial owner	185,988,200	–	185,988,200	12.25%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	–	10,800,820	0.71%

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, as at 31 December 2018, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant to which the Company or any of its subsidiaries was a party and in which a Director or its connect entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2018, none of the Directors had an interest in a business (other than those businesses where the Director was appointed as a director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with businesses of the Group.

EQUITY-LINKED AGREEMENTS

Save for the "SHARE OPTION SCHEME" disclosed below, no equity-linked agreements was entered into by the Group, or existed during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

As permitted by the Bye-laws, every director shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur or sustain in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his/her office or in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty.

There is appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Approximate percentage of total issued share capital of the Company
Shougang Group Co., Ltd. ("Shougang Group")	Interests of controlled corporations	619,168,023 *(Note)*	40.78%
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	619,168,023 *(Note)*	40.78%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	619,168,023 *(Note)*	40.78%
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interests of controlled corporations	619,168,023 *(Note)*	40.78%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	619,168,023 *(Note)*	40.78%

Note: Upper Nice is an indirect wholly-owned subsidiary of Shougang Grand. Shougang Grand was held as to approximately 50.53% by Wheeling, a wholly-owned subsidiary of Shougang Holding which is in turn wholly-owned by Shougang Group. Accordingly, all these corporations are deemed to be interested in the share capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, there is a sufficiency of public float of the Company's securities as required under the GEM Listing Rules as at the date of this annual report.

SHARE OPTION SCHEME

The Shareholders adopted a share option scheme at the annual general meeting on 18 June 2013 (the "2013 Share Option Scheme"), which complies with the requirements of Chapter 23 of the GEM Listing Rules. No share option has been granted under the 2013 Share Option Scheme since its adoption. The 2013 Share Option Scheme is valid and effective for a period of 10 years.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

The purpose of the 2013 Share Option Scheme was to motivate Eligible Persons[1] to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of any proposed employee or a person for the time being seconded to work full-time or part-time for any member of the Group ("Executive"), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The total number of shares available for issue under the 2013 Share Option Scheme is 151,825,554, representing approximately 10% of the Company's total issued share capital as at the date of this annual report. Unless approved by Shareholders, the total number of shares issued and to be issued upon exercise of the share options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the total share capital of the Company in issue.

A grant of an option can be made at any time as specified by the Board, so long as such grant is made within 10 years from the effective date of 2013 Share Option Scheme, being 18 June 2013. Once an offer of the grant of an option is made, a period of no more than 28 days will be given to accept such offer. On or before acceptance of the offer, HK$1 is to be paid as consideration to the Company.

The exercise price shall be determined by the Board which shall not be less than whichever is the highest of: (i) the nominal value of a share of the Company; (ii) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of offer of share options; and (iii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer of share options. The Board also has the absolute discretion to determine the minimum period an option must be held before it can be exercised.

Note:

1 Pursuant to the terms of the 2013 Share Option Scheme, Eligible Persons means "an Executive; a director or proposed director (including an independent non-executive director) of any member of the Group; a direct or indirect shareholder of any member of the Group; a supplier of goods or services to any member of the Group; a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and an associate of any of the foregoing persons."

No share option was granted since its adoption according to the 2013 Share Option Scheme. As at the date of this annual report, the remaining life of the 2013 Share Option Scheme is approximately 4 years and 3 months.

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 year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company did not have any reserves available for distribution.

THE GROUP'S PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk

As the Group mainly operates in the PRC, the Group would be subject to the adverse impact on its financial position caused by the instability of RMB exchange rate and the weak economy in the PRC.

Intellectual Property Risk

The trademark of the Group is one of the Group's intangible assets. In case of infringement, the Group may engage in lawsuits, defend for a case and incur legal costs. In light of this, the Group has fully leveraged on legal protection through registration of its trademarks. In addition, the copyright of the original work projects of the Group's CG creation and production division and the computer software developed by the Group are the Group's important assets. To prevent impairment of the Group's reputation and financial losses caused by unauthorised use of the original work projects and the computer software without the Group's consent, the division has established copyright management system for copyright management, which includes the application as the original author for original work projects and the computer software through registration of works, with the aim of protecting the Group's assets to the full extent under the laws.

Details of the other key risks of the Group are set out in the section headed "CORPORATE GOVERNANCE REPORT" of this annual report.

UPDATE ON LITIGATION

During the year, Guangdong Cultural Park received the Higher Court Civil Judgment of Guangdong Higher People's Court, which rejected the appeal lodged in November 2016 and upheld the original judgment. Details of the litigation are set out in notes 16a and 42 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in the section headed "CORPORATE GOVERNANCE REPORT" of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the operations of the Group during the year ended 31 December 2018.

ENVIRONMENTAL PROTECTION

The Group strives to conduct business in an environmentally responsible manner. The Group has internal guidelines on energy conservation and emission reduction so as to minimize the impact on the environment and natural resources during its operation. Details of the Group's environmental protection measures and policies are set out in the section headed "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT" of this annual report.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 47% of the revenue for the year and the largest customer included therein amounted to approximately 22%. Purchases from the Group's five largest suppliers accounted for approximately 7% of the cost of sales for the year and the largest supplier included therein amounted to approximately 2%. Save as disclosed above, none of the Directors or any of their associates or any shareholders (which, to the best of the knowledge of the Directors, owns more than 5% of the Company's total share capital) had any beneficial interest in the Group's five largest customers and suppliers.

RELATION WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The CG creation and production division of the Group has established good relationship with domestic and overseas clients over the years. The division has maintained close communication with clients and shared views with existing and potential clients through participation in industry events in order to have a better understanding of the clients' and the animated film industry's requirements for the latest technology of animation production and its development trend. This also facilitates the research and development of computer-aided animation software of the Group that caters to the market demands and contributes to the provision of quality and personalized production services to clients, which in turn helps build up a long-term relationship with clients.

In respect of the leasing business, the Group, dedicated to improving the quality of property management services, collects information through various channels, including regularly visiting tenants, conducting annual survey on management services and gatherings at leisure time with a view to gaining a better understanding of the tenants' general opinions on the services provided by the Group.

Suppliers

The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness. Sound relationships with key service vendors of the Group are important in supply chain, properties management and meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long-term business benefits. The key service vendors comprise external consultants which provide professional services and suppliers of office goods/merchandise.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 45 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2018.

MANAGEMENT'S AND AUDIT COMMITTEE'S VIEWS ON AUDITOR'S QUALIFIED OPINION

As disclosed in the Independent Auditor's Report, the auditor of the Company expressed a qualified opinion on the Group's consolidated financial statements for the year ended 31 December 2018 in relation to (i) the accrued rental and settlement payables amounted to HK$128,800,000 and (ii) the (loss) profit for the period/year from the discontinued operation – the Pearl River Film Cultural Park of HK$455,917,000 in view of the fact that Guangdong Cultural Park and Pearl River Film Production have not yet agreed on the settlement arrangements (the "Audit Qualification") as of such date. Please refer to the section headed "Basis for Qualified Opinion" of the Independent Auditor's Report of this annual report for details of the Audit Qualification.

The Audit Committee noted from the management of the Company that Guangdong Cultural Park has been negotiating with Pearl River Film Production since the termination of Framework Agreement as of 22 March 2016, pursuant to the First Civil Judgment which did not provide definitive guidance as to treatment of Phase I of the Pearl River Film Cultural Park, being the completed properties. As disclosed in the Company's announcement dated 10 December 2018, in light of the recent actions taken by Pearl River Film Production including its attempt to take possession of the Pearl River Film Culture Park without our consent at the end of November 2018, the Board decided to derecognize the Pearl River Film Cultural Park as an investment property of the Group and cease recognizing all revenue derived from the Pearl River Film Cultural Park starting from 1 December 2018. Notwithstanding such decision, Guangdong Cultural Park remains committed to continue negotiation with Pearl River Film Production with a view to reach satisfactory settlement terms with Pearl River Film Production which can properly protect its rights and legitimate interests on the Pearl River Film Cultural Park.

The Audit Committee has critically reviewed the management's position on the major judgmental areas and concluded that it has no disagreement with the management's position on the Audit Qualification.

The Audit Committee has discussed with the Company's auditor and noted their view that the qualified opinion could only be removed upon Guangdong Cultural Park and Pearl River Film Production having reached an agreement on the settlement arrangements. To address the Audit Qualification and with a view to removing the audit qualifications for the consolidated financial statements of the Group for the year ending 31 December 2019, the Company will continue to use their best effort to negotiate with Pearl River Film Production in order for the most favourable settlement arrangements to come into place for the Company.

AUDITOR

The accounts have been audited by Messrs. Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

REPORT OF THE DIRECTORS

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors subsequent to the date of the Company's interim report 2018 are as follows:

1. Ms. Cheng Xiaoyu, the Chairman of the Board and an Executive Director, was appointed as the Managing Director of the Company with effect from 11 December 2018. She was also appointed as the authorised representative under Rule 5.24 of the GEM Listing Rules and the authorised representative under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (collectively, the "Authorised Representatives"); and the compliance officer under Rule 5.19 of the GEM Listing Rules (the "Compliance Officer") with effect from 11 December 2018.

2. Mr. Chen Zheng was re-designated from an Executive Director and the Chief Executive Officer of the Company to a Non-executive Director and a Deputy Chairman of the Board with effect from 11 December 2018. He also ceased to be the Authorised Representatives and the Compliance Officer with effect from 11 December 2018.

3. Mr. Jin Guo Ping, an Executive Director, was re-designated from his position as the Vice President of the Company to the Deputy Managing Director of the Company with effect from 11 December 2018.

By Order of the Board

Cheng Xiaoyu
Chairman and Managing Director

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
環球數碼創意控股有限公司
(incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 66 to 156, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As disclosed in note 16 to the consolidated financial statements, the Group has completed properties representing Phase I of 珠影文化產業園 (the "Pearl River Film Cultural Park") which was fully derecognised during the year ended 31 December 2018 (2017: HK$439,616,000). The Pearl River Film Cultural Park was accounted for as investment properties as at 31 December 2017.

On 11 April 2016, 珠江電影製片有限公司 ("Pearl River Film Production") as the plaintiff (the "Plaintiff") initiated legal proceedings against 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a subsidiary of the Company, in respect of an alleged breach of the framework agreement governing the lease and reconstruction of the Pearl River Film Cultural Park (the "Alleged Breach").

Guangdong Cultural Park received the civil judgment issued on 11 October 2016 by 中國廣東省廣州市中級人民法院 (the "First Civil Judgment"), which declared that the framework agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of RMB2,722,000 (equivalent to HK$3,172,000).

INDEPENDENT AUDITOR'S REPORT

On 16 March 2018, Guangdong Cultural Park received the civil judgment of 中國廣東省高級人民法院 ("Guangdong Higher People's Court") dated 31 January 2018, which rejected the appeal lodged by Guangdong Cultural Park and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment"). With respect to the consolidated financial statements of the Group for the year ended 31 December 2017, the management of the Company and Guangdong Cultural Park (the "Management") was unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park. These circumstances caused us to disclaim our opinion on the consolidated financial statements in respect of the year ended 31 December 2017 due to the potential significant impact of these actions on the consolidated financial statements of the Group.

On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from Pearl River Film Production's legal representative, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for compensation of related occupation fee and economic loss amounted to RMB143,076,000 (equivalent to HK$169,521,000).

In September 2018, the corresponding appeal period for the Final Civil Judgement issued by Guangdong Higher People's Court dated 31 January 2018 lapsed. At the end of November 2018, Pearl River Film Production issued a formal demand letter to Guangdong Cultural Park which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and Pearl River Film Production also attempted to take possession of the Pearl River Film Cultural Park without the consent of the Group.

Guangdong Cultural Park continued to account for Phase I of the Pearl River Film Cultural Park as investment properties until 30 November 2018 and record the rentals receivable from lessees as the Group's revenue until 30 November 2018, on the assumption that the legal contractual right to receive the rental income from the lessees and the rental payable to Pearl River Film Production would remain unchanged and the terms and conditions of the framework agreement governing Phase I of the Pearl River Film Cultural Park would continue to be enforceable.

Upon the lapse of the appeal period for the Final Civil Judgment and the recent actions taken by Pearl River Film Production, on 1 December 2018, the Group decided to derecognise Phase I of the Pearl River Film Cultural Park as investment properties and recognised a loss on derecognition of investment properties of Phase I of the Pearl River Film Cultural Park, which amounted to HK$411,412,000. The Group has also ceased recognising all revenue derived from the Phase I of the Pearl River Film Cultural Park from 1 December 2018. For the year ended 31 December 2018, the Group has made a provision for the accrued rental and settlement payables which amounted to HK$95,148,000. As a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Pearl River Film Cultural Park operation was discontinued with effect from 1 December 2018. Accordingly, the results of the Pearl River Film Cultural Park operation for the year ended 31 December 2018 have been separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

INDEPENDENT AUDITOR'S REPORT

In March 2019, Guangdong Cultural Park received a demand letter dated 7 March 2019 from Pearl River Film Production, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for related occupation fee.

The Group has made a provision for the accrued rental and settlement payables based on management's best estimate on the final settlement amount. In view of the fact that Guangdong Cultural Park and Pearl River Film Production have not yet reached an agreement on the settlement arrangements, we were unable to obtain sufficient appropriate audit evidence about (i) the accrued rental and settlement payables amounted to HK$128,800,000 as at 31 December 2018 as disclosed in note 29 to the consolidated financial statements as other payables and accruals; and (ii) the (loss) profit for the period/year from the discontinued operations – the Pearl River Film Cultural Park of HK$455,917,000 as disclosed in note 11 to the consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that such amounts and the relevant disclosures related to the Pearl River Film Cultural Park were free from material misstatement. Any adjustment found to be necessary would affect the net assets as at 31 December 2018 and 2017 and the financial performance of the Group for the year then ended.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the determination of the fair value of investment properties is dependent on certain unobservable inputs and key assumptions that require significant management judgments. All the Group's investment properties are measured at fair value based on valuations performed by independent qualified professional valuers, which is assessed by capitalisation of rental income from properties. Details of the valuation techniques and key inputs used in the valuations are set out in notes 4 and 16 to the consolidated financial statements. As at 31 December 2018, the Group's investment properties are carried at fair value of approximately HK$236,237,000 as disclosed in note 16 to the consolidated financial statements.	Our procedures in relation to the valuation of investment properties included: – Obtaining an understanding of the key controls over the valuation assessment of its investment properties by management; – Evaluating the competence, capabilities and objectivity of the independent qualified professional valuers and obtaining an understanding of their scope of work and terms of engagement; – Challenging the valuation techniques and reasonableness of the significant inputs used by the management and the valuers in the valuation based on our knowledge of the property markets and market rental with similar properties and locations; and – Assessing the reasonableness of specific assumptions made by management and valuers on adjustments to the properties valuations, by taking into account of the contractual terms and conditions, location, discount rates, market rents and other individual factors.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Chi Kin, Kinson.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations			
Revenue	5		
Goods and services		**62,260**	38,551
Rental		**45,382**	42,211
Total revenue		**107,642**	80,762
Cost of sales and services		**(70,404)**	(75,833)
Gross profit		**37,238**	4,929
Other income	8	**29,252**	14,653
Distribution costs and selling expenses		**(4,552)**	(22,367)
Administrative expenses		**(41,285)**	(38,414)
Other gains and loss	9	**351**	317
Share of results of an associate		**–**	(23)
Profit (loss) before tax		**21,004**	(40,905)
Income tax expense	10	**(11,320)**	(535)
Profit (loss) for the year from continuing operations	12	**9,684**	(41,440)
Discontinued operations			
Loss (profit) for the year from discontinued operations	11	**(456,221)**	17,425
Loss for the year		**(446,537)**	(24,015)
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		**(42,710)**	58,601
Gain on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties		**61,049**	–
Deferred tax on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties		**(15,262)**	–
		3,077	58,601
Item that may be reclassified subsequently to profit or loss:			
Decrease in fair value of available-for-sale investment		**–**	(4,057)
Other comprehensive income for the year		**3,077**	54,544
Total comprehensive (expenses) income for the year		**(443,460)**	30,529

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000 (Restated)
Profit (loss) for the year attributable to owners of the Company:			
– from continuing operations		**9,549**	(41,368)
– from discontinued operations		**(310,090)**	12,073
		(300,541)	(29,295)
Profit (loss) for the year attributable to non-controlling interests:			
– from continuing operations		**135**	(72)
– from discontinued operations		**(146,131)**	5,352
		(145,996)	5,280
		(446,537)	(24,015)
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(294,792)**	23,606
Non-controlling interests		**(148,668)**	6,923
		(443,460)	30,529
		HK cents	*HK cents*
(Loss) earnings per share	*14*		
From continuing and discontinued operations			
Basic		**(19.79)**	(1.93)
From continuing operations			
Basic		**0.63**	(2.72)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment	15	**5,831**	200,373
Investment properties	16	**236,237**	439,616
Prepaid lease payments	17	**–**	5,071
Interest in an associate	18	**–**	–
Restricted bank deposit	19	**–**	46,253
		242,068	691,313
Current assets			
Programmes	20	**–**	8,341
Productions work in progress	21	**5,207**	6,403
Trade receivables	22	**8,631**	21,179
Other receivables and deposits	23	**4,058**	6,152
Amount due from an associate	24	**1,185**	995
Prepaid lease payments	17	**–**	132
Structured deposits	25	**–**	1,686
Bank balances and cash	26	**273,133**	294,687
		292,214	339,575
Current liabilities			
Advances from customers	27	**893**	5,184
Trade payables	28	**3**	1,653
Other payables and accruals	29	**185,940**	92,625
Tax liabilities		**12,478**	9,224
Contract liabilities	30	**5,295**	–
Deferred income	31	**2,521**	2,443
		207,130	111,129
Net current assets		**85,084**	228,446
Total assets less current liabilities		**327,152**	919,759
Non-current liabilities			
Deferred income	31	**–**	2,657
Deferred tax liabilities	32	**16,317**	41,347
		16,317	44,004
Net assets		**310,835**	875,755

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	33	**15,183**	15,183
Reserves		**419,238**	835,490
Equity attributable to owners of the Company		**434,421**	850,673
Non-controlling interests		**(123,586)**	25,082
Total equity		**310,835**	875,755

The consolidated financial statements on pages 66 to 156 were approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on its behalf by:

Cheng Xiaoyu
DIRECTOR

Xu Liang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company													
	Share capital *HK$'000*	Share premium reserve *HK$'000*	Capital contribution reserve *HK$'000* *(note a)*	Contributed surplus reserve *HK$'000* *(note b)*	Statutory reserve *HK$'000* *(note c)*	Investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Special reserve *HK$'000* *(note d)*	Dividend distribution reserve *HK$'000*	Retained earnings *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	15,183	75,856	445	245,881	4,316	4,057	–	(39,305)	(1,209)	–	521,843	827,067	18,159	845,226
(Loss) profit for the year	–	–	–	–	–	–	–	–	–	–	(29,295)	(29,295)	5,280	(24,015)
Exchange differences on translation to presentation currency	–	–	–	–	–	–	–	56,958	–	–	–	56,958	1,643	58,601
Decrease in fair value of available-for-sale investment	–	–	–	–	–	(4,057)	–	–	–	–	–	(4,057)	–	(4,057)
Other comprehensive (expenses) income for the year	–	–	–	–	–	(4,057)	–	56,958	–	–	–	52,901	1,643	54,544
Total comprehensive (expenses) income for the year	–	–	–	–	–	(4,057)	–	56,958	–	–	(29,295)	23,606	6,923	30,529
Sub-total	15,183	75,856	445	245,881	4,316	–	–	17,653	(1,209)	–	492,548	850,673	25,082	875,755
Transfer to statutory reserve	–	–	–	–	146	–	–	–	–	–	(146)	–	–	–
At 31 December 2017	15,183	75,856	445	245,881	4,462	–	–	17,653	(1,209)	–	492,402	850,673	25,082	875,755
Loss for the year	–	–	–	–	–	–	–	–	–	–	(300,541)	(300,541)	(145,996)	(446,537)
Exchange differences on translation to presentation currency	–	–	–	–	–	–	–	(40,038)	–	–	–	(40,038)	(2,672)	(42,710)
Gain on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties	–	–	–	–	–	–	61,049	–	–	–	–	61,049	–	61,049
Deferred tax on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties	–	–	–	–	–	–	(15,262)	–	–	–	–	(15,262)	–	(15,262)
Other comprehensive income (expenses)	–	–	–	–	–	–	45,787	(40,038)	–	–	–	5,749	(2,672)	3,077
Total comprehensive income (expenses) for the year	–	–	–	–	–	–	45,787	(40,038)	–	–	(300,541)	(294,792)	(148,668)	(443,460)
Transfer to dividend distribution reserve	–	–	–	–	–	–	–	–	–	121,460	(121,460)	–	–	–
Dividends paid *(note 13)*	–	–	–	–	–	–	–	–	–	(121,460)	–	(121,460)	–	(121,460)
Sub-total	15,183	75,856	445	245,881	4,462	–	45,787	(22,385)	(1,209)	–	70,401	434,421	(123,586)	310,835
Transfer to statutory reserve	–	–	–	–	2,173	–	–	–	–	–	(2,173)	–	–	–
At 31 December 2018	15,183	75,856	445	245,881	6,635	–	45,787	(22,385)	(1,209)	–	68,228	434,421	(123,586)	310,835

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes:

(a) Capital contribution reserve represents accumulated effect of imputed interest on amount due to other related party.

(b) Contributed surplus reserve represents (1) the difference between the nominal value of share capital of the Company and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002, amounting to HK$40,271,000 and; (2) the transfer of the share premium reserve of HK$589,670,000 as at 31 December 2007 to contributed surplus reserve which was applied to eliminate the deficit of the Company of HK$384,060,000 as at 31 December 2007, in accordance to a special resolution passed by shareholders of the Company at the special general meeting of the Company held on 6 June 2008.

(c) As stipulated by the rules and regulations in the People's Republic of China (the "PRC", for the purpose of these consolidated financial statements, does not include Hong Kong, Macau and Taiwan), the subsidiaries of the Company established in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their registered capital thereafter any further appropriation is optional and is determinable by the companies' boards of directors.

(d) The special reserve represents (1) the difference between the proceeds and the carrying amount of the net assets attributable to the disposal of partial interest in a PRC subsidiary during the year ended 31 December 2012 amounting to HK$39,000 and; (2) the difference between the proceeds and the carrying amount of the net liabilities attributable to the additional interest in a PRC subsidiary acquired from a non-controlling shareholder during the year ended 31 December 2014 amounting to HK$1,248,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before tax			
– continuing operations		**21,004**	(40,905)
– discontinued operations		**(493,637)**	17,988
Adjustments for:			
Impairment loss on trade receivables, net of reversal		**1,347**	2,435
Amortisation of prepaid lease payments		**123**	127
Changes in fair value of structured deposits		**–**	(5)
Decrease in fair value of investment properties	*16*	**2,481**	579
Depreciation of property, plant and equipment		**16,125**	16,741
Government grants related to computer equipment acquisition and specific projects		**(2,405)**	(530)
Loss on derecognition of investment properties	*16*	**411,412**	–
Interest income		**(8,293)**	(6,810)
Loss on disposal of property, plant and equipment		**–**	2
Provision for accrued rental and settlement payables		**95,148**	–
Share of results of an associate		**–**	23
Write-down of programmes		**–**	11,001
Write-off of effective rent receivables previously recognised in trade receivables		**8,901**	–
Operating cash flows before movements in working capital		**52,206**	646
Decrease (increase) in restricted bank deposit		**47,333**	(26,138)
Decrease (increase) in programmes		**8,213**	(7,661)
Decrease in productions work in progress		**1,580**	3,475
Decrease in amounts due from customers for contract work		**–**	2,546
Decrease (increase) in trade receivables		**2,545**	(1,589)
Decrease in other receivables and deposits		**1,846**	3,659
Increase in advances from customers		**39**	90
Decrease in amounts due to customers for contract work		**–**	(105)
Decrease in trade payables		**(1,624)**	(922)
Increase in other payables and accruals		**2,741**	8,743
Increase in contract liabilities		**1,262**	–
Cash generated from (used in) operations		**116,141**	(17,256)
Income tax paid		**(8,376)**	(3,266)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**107,765**	(20,522)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Redemption of structured deposits		**997,523**	1,124,306
Interest received		**8,293**	6,810
Purchase of structured deposits		**(995,863)**	(1,106,250)
Purchase of property, plant and equipment		**(3,142)**	(4,486)
Advances to an associate		**(249)**	(955)
Investment in an associate		**–**	(23)
Government grants received related to assets	*31*	**–**	4,792
Proceeds from disposal of property, plant and equipment		**–**	3
NET CASH FROM INVESTING ACTIVITIES		**6,562**	24,197
CASH USED IN FINANCING ACTIVITY			
Dividends paid	*13*	**(121,460)**	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(7,133)**	3,675
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**294,687**	274,528
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(14,421)**	16,484
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, COMPRISING BANK BALANCES AND CASH		**273,133**	294,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

Global Digital Creations Holdings Limited (the "Company") is a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company (together with its subsidiaries collectively referred to as "the Group") is an associate of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a public listed company incorporated in Bermuda with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company and the principal activities of the Company's principal subsidiaries are set out in note 41.

In prior years, the Group was involved in the culture, entertainment and related commercial property investment ("Cultural Park") operation principally through 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a non-wholly owned subsidiary of the Group, and provision of computer graphic ("CG") and animation training ("CG Training") through 深圳市南山區環球數碼培訓學校, a wholly owned subsidiary of the Group. As a result of the derecognition of the investment properties of Phase I of 珠影文化產業園 (the "Pearl River Film Cultural Park") as set out in note 16, the Cultural Park operation was discontinued with effect from 1 December 2018. In addition, in view of the shrinkage of the business and loss incurred, the CG Training operation was discontinued since October 2018 and the Group has leased the relevant building space to an independent third party to earn rental income (details as disclosed in note 15).

Accordingly, the results of the Cultural Park operation and CG Training operation for the year ended 31 December 2018 had been separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income. Details are set out in note 11.

The functional currency of the Company is Renminbi ("RMB") as the primary economic environment in which the Company's subsidiaries operate is the PRC. The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the readers for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") *(Continued)*

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Revenue from CG creation and production
- Revenue from television series and movies
- CG Training fee
- Management services fees

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

Summary of effects arising from initial application of HKFRS 15

At the date of initial application, 1 January 2018, there is no difference recognised in the opening retained earnings and no comparative information has been restated.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000	*HK$'000* *(note)*	*HK$'000*
Current Liabilities			
Advances from customers	5,184	(4,282)	902
Contract liabilities	–	4,282	4,282

Note: As at 1 January 2018, advances from customers of HK$4,282,000 in respect of CG creation and production, CG Training and management services contracts previously included in advances from customers are reclassified to contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") *(Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of cash flows for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Reclassification *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current Liabilities			
Advances from customers	893	491	1,384
Amounts due to customers for contract work	–	4,804	4,804
Contract liabilities	5,295	(5,295)	–

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Operating Activities			
Increase (decrease) in advances from customers	39	(3,724)	(3,685)
Increase in contract liabilities	1,262	(1,262)	–
Increase in amounts due to customers for contract work	–	4,986	4,986

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on the opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 HKFRS 9 *Financial Instruments* ("HKFRS 9")

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39").

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL Model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on internal credit rating.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 HKFRS 9 *Financial Instruments* ("HKFRS 9") *(Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

Impairment under ECL Model (Continued)

The application of HKFRS 9 on 1 January 2018 has no material impact on the consolidated financial statements of the Group with regards to classification and measurement of financial instruments nor recognised additional impairment loss allowance as the amounts involved are not material.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRSs mentioned below, the directors of the Company (the "Directors") anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS *16 Leases* ("HKFRS 16")

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use and other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS *16 Leases* ("HKFRS 16") *(Continued)*

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$3,945,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$761,000 and refundable rental deposits received of HK$15,197,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* ("HK(IFRIC) – Int 4") and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment* ("HKFRS 2"), leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("HKAS 36").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties and financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns, rebates and other similar allowance.

Deposits received from sale of goods or services to be provided prior to meeting the revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Management services fee income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Training fee income is recognised over the period of the training course on a straight-line basis. Unearned training fee income received is recorded as advances from customers.

Revenue from exhibition of television series or movies is recognised when they are exhibited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

Contracts for CG creation and production

Where the outcome of a contract for CG creation and production can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

Property, plant and equipment

Property, plant and equipment including buildings held for use in supply of goods and services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their estimated residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment property and are measured using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributable to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leaves) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Programmes and productions work in progress

Programmes and productions work in progress are stated at the lower of cost and net realisable value. Costs include all direct costs associated with the production of television series or movies. Net realisable value represents the estimated selling price for programmes and production work in progress less all estimated cost of completion and costs necessary to make the sale. Production costs are classified to television series or movies under programmes upon completion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)
Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income ("FVTOCI") as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and loss" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, amount due from an associate and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 180 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the shared risk characteristics basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Financial assets at FVTPL

Financial asset is classified as at FVTPL when the financial asset is (i) held-for-trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and loss" line item. Fair value is determined in the manner described in note 40c.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from an associate, restricted bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying effective interest rate.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised costs, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade payables and other payables) are subsequently measured at amortised cost, using the effective interest rate method.

Decognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset is belonged to. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred tax on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment properties and concluded that the Group's investment properties are depreciable and are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties are recovered entirely through sale is rebutted. As a result, the Group has recognised the deferred tax on changes of fair value of investment properties, taking into account the PRC enterprise income tax effect.

Classification of property

The Group has leased part of its building for rental purpose, and the remaining part was held for office premises. As at 31 December 2017, the management of the Group has classified the entire building as property, plant and equipment and accounted for at cost less accumulated depreciation and accumulated impairment losses as the self-occupied portion of the property is not an insignificant portion. As a result of the abandonment of CG Training business, the Group has leased the relevant building space to an independent third party to earn rental income on 1 December 2018 and the self-occupied portion of the property has then become an insignificant portion. As a result, the entire property (including building, the relevant leasehold improvements and plant and machinery) is classified as investment property and are measured using the fair value model because of the self-occupied portion of the property has become an insignificant portion.

If an item of property, plant and equipment becomes an investment property because its self-occupied portion of the property has become an insignificant portion as evidenced by reduction of owner-occupation to an insignificant portion, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Fair value measurement and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The management will determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group would consider to engage independent professional valuers to perform the valuation. The Group works closely with the independent professional valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties and certain types of financial instruments. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these investment properties and financial instruments. Notes 16 and 40c provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties and financial instruments, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned.

When there is an indication that the asset has suffered an impairment loss, the Group estimates the recoverable amount of the CGU in which these property, plant and equipment are allocated to. The recoverable amount is the higher of the fair value less cost of disposal and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, and require significant estimates relating to the amounts of revenue and operating costs. Changes in these estimates could have a significant impact on the value in use of the assets and could result in impairment loss in profit or loss. As at 31 December 2018, the carrying amount of property, plant and equipment is HK$5,831,000 (2017: HK$200,373,000).

Write-down of productions work in progress

As at 31 December 2018, the carrying amount of productions work in progress is HK$5,207,000 (2017: HK$6,403,000). The management of the Group reviews the net realisable value of the productions work in progress on a project by project basis at the end of the reporting period and writes down the productions work in progress whenever estimated selling price less the estimated cost of completion and the estimated cost necessary to make the sale is lower than the cost. In case there are unfavorable changes in the estimation of the selling prices and estimated costs, additional written-down might be required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE

A. For the year ended 31 December 2018

Continuing operations

(i) Disaggregation of revenue from contracts with customers and reconciliation of revenue from continuing operations from contracts with customers with segment revenue

	For the year ended 31 December 2018		
Segments	**CG creation and production** *HK$'000*	**Property leasing and building management services** *HK$'000*	**Total** *HK$'000*
Types of goods or services			
Revenue from CG creation and production	21,652	–	21,652
Revenue from television series and movies	27,660	–	27,660
Management services fee	–	12,948	12,948
Revenue from continuing operations from contracts with customers	49,312	12,948	62,260
Rental income	–	45,382	45,382
Total	49,312	58,330	107,642
Geographical markets			
The PRC	45,833	12,948	58,781
Korea	1,751	–	1,751
Hungary	637	–	637
Hong Kong	552	–	552
France	539	–	539
Total revenue from continuing operations from contracts with customers	49,312	12,948	62,260
Timing of revenue recognition			
At a point in time	27,660	–	27,660
Over time	21,652	12,948	34,600
Total revenue from continuing operations from contracts with customers	49,312	12,948	62,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

5. REVENUE *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

Continuing operations (Continued)

(ii) Performance obligations for contracts with customers

(a) Revenue from CG creation and production

The Group provides CG creation and production services under contracts with customers. Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from CG creation and production is therefore recognised over time based on the stage of completion of the contract using input method.

The Group's CG creation and production contracts include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 10% to 30% of total contract sum. When the Group receives a deposit before service commences, this will give rise to contract liability at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

(b) Revenue from television series and movies

Revenue from television series or movies is recognised at a point in time when the customer obtains the control of the television series and movies and the Group has present right to payment and collection of the consideration is probable. The normal credit term is 30 to 60 days upon delivery.

(c) Management services fee

The Group provides property management services to tenants. Income is recognised over the contract period when the relevant services are provided by the Group and the tenants simultaneously receive and consume the benefits provided by the Group's performance. The Group typically receives one month management service fee in advance at the beginning of each month.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

Continuing operations (Continued)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Revenue from CG creation and production *HK$'000*	**Management services fee** *HK$'000*
Within one year	41,562	12,974
More than one year but not more than five years	–	21,415
More than five years	–	9,552
	41,562	43,941

B. For the year ended 31 December 2017

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

	2017 *HK$'000* (Restated)
Revenue from contracts for CG creation and production *(note)*	26,127
Rental and building management service fee income	54,635
	80,762

Note: During the year ended 31 December 2017, an amount of HK$14,276,000 is attributable to revenue from the release of two animated films based on an agreed sharing percentage of the box office receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION

Information reported to the Managing Director of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

In prior year, segment information reported to the CODM was analysed on the basis of the major types of goods or services delivered or provided by the Group's operating divisions: (1) CG creation and production; (2) CG Training; and (3) Cultural Park.

Since Cultural Park and CG Training operations have become discontinued operations during the year ended 31 December 2018 (details as disclosed in note 11), the Group focuses its operations on (1) CG creation and production; and (2) property leasing and building management services. As a result, the segment information is reported to the CODM in current year as two operating divisions: (1) CG creation and production; and (2) property leasing and building management services. Accordingly, the comparative information has been re-presented.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

- CG creation and production – CG creation and production, exhibition of television series and movies

- Property leasing and building management services – property rental income and building management service fee income

The above operating divisions constitute the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31 December 2018

Continuing operations

	CG creation and production	Property leasing and building management services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Revenue	**49,312**	**58,330**	**107,642**
Segment results	**7,921**	**30,595**	**38,516**
Unallocated other income			**994**
Unallocated expenses			**(18,506)**
Profit before tax from continuing operations			**21,004**

For the year ended 31 December 2017 (re-presented)

Continuing operations

	CG creation and production	Property leasing and building management services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Revenue	26,127	54,635	80,762
Segment results	(50,168)	26,717	(23,451)
Unallocated other income			748
Unallocated expenses			(18,202)
Loss before tax from continuing operations			(40,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by or loss incurred from each segment without allocation of certain other income and central administration costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers.

There were no material inter-segment sales in the current and prior years.

Segment assets and liabilities

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

At 31 December 2018

	CG creation and production *HK$'000*	Property leasing and building management services *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	**243,258**	**257,297**	**500,555**
Unallocated assets			
– Bank balances and cash			**27,836**
– Others			**1,653**
Assets relating to discontinued operations			**4,238**
Consolidated total assets			**534,282**
Liabilities			
Segment liabilities	**38,265**	**40,074**	**78,339**
Unallocated liabilities			**1,452**
Liabilities relating to discontinued operations			**143,656**
Consolidated total liabilities			**223,447**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2017 (re-presented)

	CG creation and production *HK$'000*	Property leasing and building management services *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	268,065	213,054	481,119
Unallocated assets			
– Bank balances and cash			45,575
– Others			2,193
Assets relating to discontinued operations			502,001
Consolidated total assets			1,030,888
Liabilities			
Segment liabilities	42,145	21,065	63,210
Unallocated liabilities			2,039
Liabilities relating to discontinued operations			89,884
Consolidated total liabilities			155,133

For the purpose of monitoring segment performances and allocating resources between segments:

– all assets and liabilities are allocated to the operating segments other than unallocated assets and liabilities attributed to the Company, the Group's management companies and investment holding companies, and assets and liabilities relating to discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2018

Continuing operations

	Amounts included in the measure of segment profit or loss or segment assets				
	CG creation and production *HK$'000*	**Property leasing and building management services** *HK$'000*	**Segment total** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated total** *HK$'000*
Additions to non-current assets *(note)*	**3,113**	**–**	**3,113**	**29**	**3,142**
Depreciation of property, plant and equipment	**1,908**	**13,372**	**15,280**	**568**	**15,848**
Impairment loss on trade receivables, net of reversal	**71**	**–**	**71**	**–**	**71**
Amortisation of prepaid lease payments	**–**	**123**	**123**	**–**	**123**
Interest income	**(7,170)**	**(30)**	**(7,200)**	**(895)**	**(8,095)**
Government grants	**(20,657)**	**–**	**(20,657)**	**–**	**(20,657)**

For the year ended 31 December 2017 (re-presented)

Continuing operations

	Amounts included in the measure of segment profit or loss or segment assets				
	CG creation and production *HK$'000*	Property leasing and building management services *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated total *HK$'000*
Additions to non-current assets *(note)*	4,456	–	4,456	30	4,486
Depreciation of property, plant and equipment	2,227	13,575	15,802	586	16,388
Loss on disposal of property, plant and equipment	–	–	–	2	2
Write-down of programmes	11,001	–	11,001	–	11,001
Reversal of impairment loss on trade receivables, net	(314)	–	(314)	–	(314)
Share of results of an associate	23	–	23	–	23
Amortisation of prepaid lease payments	–	127	127	–	127
Interest income	(6,022)	(8)	(6,030)	(748)	(6,778)
Government grants	(7,749)	–	(7,749)	–	(7,749)

Note: Non-current assets exclude those relating to discontinued operations and exclude restricted bank deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located mainly in the PRC.

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

	Revenue from external customers		Non-current assets *(note)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Re-presented)		(Re-presented)
The PRC	**104,163**	80,089	**240,980**	203,518
Korea	**1,751**	–	**–**	–
Hungary	**637**	–	**–**	–
Hong Kong	**552**	–	**837**	1,382
France	**539**	78	**–**	–
Denmark	**–**	334	**–**	–
USA	**–**	261	**–**	–
	107,642	80,762	**241,817**	204,900

Note: Non-current assets exclude those relating to discontinued operations and exclude restricted bank deposit.

Information about major customers

Revenue from customers of the corresponding years individually contributing over 10% of the Group's revenue are as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Customer A[1]	**23,232**	N/A[2]

[1] Revenue from CG creation and production business.

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The Directors' and chief executive's remuneration for the year ended 31 December 2018 amounted to HK$8,094,000 (2017: HK$7,483,000), disclosed pursuant to the applicable GEM Listing Rules and CO, details are as follows:

For the year ended 31 December 2018

	Mr. Xu Liang *HK$'000*	Mr. Chen Zheng[1] *HK$'000*	Mr. Jin Guo Ping *HK$'000*	Ms. Cheng Xiaoyu[3] *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS					
Fees	–	–	–	–	–
Salaries and other benefits	–	4,297	1,200	1,500	6,997
Retirement benefit scheme contributions	–	170	18	75	263
	–	4,467	1,218	1,575	7,260

The executive directors' emoluments shown above were paid for their services in connection with the affairs of the Company and the Group.

	Mr. Chen Zheng[1] *HK$'000*	Mr. Leung Shun Sang, Tony[2] *HK$'000*	Total *HK$'000*
NON-EXECUTIVE DIRECTORS			
Fee	41	73	114

Notes:

(1) Re-designated from an executive director and the chief executive officer to a non-executive director on 11 December 2018.

(2) Retired on 18 May 2018.

(3) Designated as the managing director on 11 December 2018.

The non-executive directors' emoluments shown above were paid for their services as Directors.

	Mr. Kwong Che Keung, Gordon *HK$'000*	Prof. Japhet Sebastian Law *HK$'000*	Mr. Lam Yiu Kin *HK$'000*	Total *HK$'000*
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	240	240	240	720

The independent non-executive directors' emoluments shown above were paid for their services as Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2017

	Mr. Xu Liang[(1)] *HK$'000*	Mr. Li Shaofeng[(2)] *HK$'000*	Mr. Chen Zheng[(3)] *HK$'000*	Mr. Jin Guo Ping *HK$'000*	Ms. Cheng Xiaoyu[(4)] *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS						
Fees	–	–	–	–	–	–
Salaries and other benefits	–	–	3,600	1,200	1,500	6,300
Retirement benefit scheme contributions	–	–	180	18	75	273
	–	–	3,780	1,218	1,575	6,573

The executive directors' emoluments shown above were paid for their services in connection with the affairs of the Company and the Group.

	Mr. Leung Shun Sang, Tony[(5)] *HK$'000*
NON-EXECUTIVE DIRECTOR	
Fee	190

Notes:

(1) Appointed on 14 June 2017.

(2) Resigned on 14 June 2017.

(3) Re-designated from an executive director and the chief executive officer to a non-executive director on 11 December 2018.

(4) Designated as the managing director on 11 December 2018.

(5) Retired on 18 May 2018.

The non-executive director's emolument shown above was paid for his services as Director.

	Mr. Kwong Che Keung, Gordon *HK$'000*	Prof. Japhet Sebastian Law *HK$'000*	Mr. Lam Yiu Kin *HK$'000*	Total *HK$'000*
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	240	240	240	720

The independent non-executive directors' emoluments shown above were paid for their services as Directors.

Ms. Cheng Xiaoyu (2017: Mr. Chen Zheng) is also the Chief Executive of the Company and the emoluments disclosed above include those for services rendered by her as Chief Executive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments – five highest paid employees

The five highest paid employees of the Group during the year included three directors (2017: three directors), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other benefits	**2,074**	2,135
Retirement benefit scheme contributions	**36**	36
	2,110	2,171

The number of the highest paid employee who are not the directors of the Company whose remuneration falls within the following band is as follows:

	2018	2017
	Number of employees	Number of employees
HK$1,000,000 or below	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

8. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Government grants *(note)*	**20,657**	7,749
Interest income	**8,095**	6,778
Others	**500**	126
	29,252	14,653

Note: During the year ended 31 December 2018, government grants included subsidies and awards of HK$18,252,000 (2017: HK$7,219,000) received from the relevant authorities in the PRC which are incentive payments to the Group whereby no future related cost is required or expected to be made.

In addition, an amount of HK$2,405,000 (2017: HK$530,000) is related to government grants on computer equipment acquisition and specific projects which are amortised to profit or loss on a straight-line basis over the estimated useful life of the acquired assets or upon the completion of the relevant projects. Details are set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. OTHER GAINS AND LOSS

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Impairment loss on trade receivables, net of reversal	**(71)**	314
Loss on disposal of property, plant and equipment	**–**	(2)
Changes in fair value of structured deposits	**–**	5
Others	**422**	–
	351	317

10. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
The income tax expense comprises:		
Current tax:		
Hong Kong Profits Tax *(note (i))*	**–**	–
PRC Enterprise Income Tax ("EIT") *(note (ii))*	**4,310**	12
PRC withholding tax on distributed profits from a PRC subsidiary *(note (iii))*	**6,825**	–
	11,135	12
Deferred taxation *(note 32)*	**185**	523
	11,320	535

Notes:

(i) No provision for Hong Kong Profits Tax has been made in the consolidated statement of profit or loss and other comprehensive income for both years as the Group had no assessable profit arising in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE *(Continued)*

Notes: *(Continued)*

(ii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards, except for the subsidiary described below.

According to the Circular of the State Administration of Taxation on the issues concerning implementation of the preferential income tax for hi-tech enterprise (Guoshui Han [2009] No. 203), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 2017 to 2020 as it is qualified as hi-tech enterprise. For the year ended 31 December 2017, according to the Circular of the State Administration of Taxation for the EIT policies on the advanced technology service enterprise ("ATSE") (Caishui [2014] No. 59), one of the PRC subsidiaries was able to enjoy a preferential tax rate at 15% from 2015 till 2017 as it is qualified as ATSE. For the year ended 31 December 2018, the relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2017: 15% to 25%).

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the year ended 31 December 2018.

No provision for tax in other jurisdictions has been made in the consolidated statement of profit or loss and other comprehensive income for both years as the Group had no assessable profit arising in other jurisdictions.

(iii) During the year ended 31 December 2018, a PRC subsidiary of the Company has declared a one-off and non-recurring special dividend to the Company and withholding tax of HK$6,825,000 has been paid to the PRC tax bureau. According to the EIT Law and Implementation Regulation of the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise.

In the opinion of the Directors and the directors of the PRC subsidiaries, the PRC subsidiaries have no intention and are not probable to declare dividend in the foreseeable future and deferred taxation has not been provided for in respect of temporary difference attributable to the remaining retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit (loss) before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	*HK$'000* (Restated)
Profit (loss) before tax from continuing operations	**21,004**	(40,905)
Tax calculated at the PRC EIT rate of 25% (2017: 25%)	**5,251**	(10,226)
Tax effect of income not taxable for tax purpose	**(1,125)**	(344)
Tax effect of expenses not deductible for tax purpose	**1,224**	3,603
Tax effect of tax losses not recognised	**3,960**	4,665
Utilisation of temporary differences previously not recognised	**(2,531)**	–
Utilisation of tax losses previously not recognised	**(2,024)**	–
Effect of Super Deduction granted to certain subsidiaries in the PRC	**(938)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**678**	2,837
Withholding tax on distributed profits from a PRC subsidiary	**6,825**	–
Income tax expense for the year from continuing operations	**11,320**	535

At the end of the reporting period, the Group has the following tax losses, of which no deferred tax assets are recognised due to the unpredictability of the future profit streams:

	2018	2017
	HK$'000	*HK$'000*
Estimated tax losses that may be carried forward	**84,264**	71,496

The estimated tax losses are available for offset against future profits subject to approval from the relevant tax authority. As at 31 December 2018, included in unrecognised tax losses are losses of HK$Nil, HK$619,000, HK$3,959,000, HK$2,801,000 and HK$5,959,000 that will expire in 2019, 2020, 2021, 2022 and 2023, respectively. At as 31 December 2017, included in unrecognised tax losses are losses of HK$Nil, HK$305,000, HK$3,416,000, HK$3,876,000, HK$7,582,000 that will expire in 2018, 2019, 2020, 2021 and 2022, respectively. Other tax losses may be carried forward indefinitely.

At 31 December 2018, the Group has deductible temporary differences of HK$497,236,000 (31 December 2017: HK$87,002,000) in respect of the derecognition loss on investment properties, which is subjected to government approval. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DISCONTINUED OPERATIONS

The (loss) profit for the period/year from the discontinued operations (as described in note 1) is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the CG Training and Cultural Park as discontinued operations.

CG Training

	2018	2017
	HK$'000	*HK$'000*
Revenue from services	**4,450**	6,449
Cost of services	**(2,919)**	(3,188)
Other income	**17**	123
Distribution costs and selling expenses	**(457)**	(504)
Administrative expenses	**(1,395)**	(2,088)
(Loss) profit before tax	**(304)**	792
Income tax expense	**–**	(2)
(Loss) profit for the period/year from discontinued operation	**(304)**	790

(Loss) profit for the period/year from discontinued operation has been arrived at after charging (crediting):

	2018	2017
	HK$'000	*HK$'000*
Staff costs:		
– Salaries, wages and other benefits	**3,187**	4,079
– Retirement benefit scheme contributions	**193**	306
Total staff costs	**3,380**	4,385
Depreciation of property, plant and equipment	**92**	129
Interest income	**(14)**	(22)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DISCONTINUED OPERATIONS *(Continued)*

CG Training *(Continued)*

Cash flows for the period/year:

	2018	2017
	HK$'000	*HK$'000*
Net cash inflow (outflow) from operating activities	**110**	(1,347)
Net cash inflow from investing activities	**14**	22
Net cash inflow (outflow)	**124**	(1,325)

Cultural Park

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Services	**6,748**	7,433
Rental	**34,089**	39,271
Total revenue	**40,837**	46,704
Cost of services	**(9,561)**	(11,298)
Other income	**184**	10
Distribution costs and selling expenses	**(41)**	(37)
Administrative expenses	**(5,534)**	(4,636)
Change in fair value of investment properties	**(2,481)**	(579)
Rental and settlement expenses	**(95,148)**	(10,219)
Other gains and losses	**(10,177)**	(2,749)
Loss on derecognition of investment properties	**(411,412)**	–
(Loss) profit before tax	**(493,333)**	17,196
Income tax credit (expense)	**37,416**	(561)
(Loss) profit for the period/year from discontinued operation	**(455,917)**	16,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DISCONTINUED OPERATIONS *(Continued)*

Cultural Park *(Continued)*

(Loss) profit for the period/year from discontinued operation has been arrived at after charging (crediting):

	2018 HK$'000	2017 HK$'000
Staff costs:		
– Salaries, wages and other benefits	**4,888**	4,810
– Retirement benefit scheme contributions	**689**	661
Total staff costs	**5,577**	5,471
Auditor's remuneration	**758**	75
Depreciation of property, plant and equipment	**185**	224
Impairment loss on trade receivables, net of reversal	**1,276**	2,749
Write-off of effective rent receivables previously recognised in trade receivables (included in "other gains and losses")	**8,901**	–
Interest income	**(184)**	(10)
Minimum lease payments under operating leases	**14,802**	16,167
Gross rental income from investment properties	**(29,113)**	(30,072)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**2,242**	2,463
	(26,871)	(27,609)

Cash flows for the period/year:

	2018 HK$'000	2017 HK$'000
Net cash inflow from operating activities	**76,603**	6,722
Net cash (outflow) inflow from investing activities	**(6)**	10
Net cash outflow from financing activities	**(76,799)**	(9,274)
Net cash outflow	**(202)**	(2,542)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. PROFIT (LOSS) FOR THE YEAR

	2018 **HK$'000**	2017 HK$'000 (Restated)
Profit (loss) for the year from continuing operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(note 7a)*:		
– Salaries, wages and other benefits	**64,061**	71,107
– Retirement benefit scheme contributions	**3,978**	4,405
Total staff costs	**68,039**	75,512
Less: amounts included in customers for contract work	**–**	(2,889)
amounts included in contract assets	**(8,422)**	–
amounts included in productions work in progress	**(10,444)**	(22,486)
	49,173	50,137
Write-down of programmes (included in "cost of sales and services")	**–**	11,001
Amortisation of prepaid lease payments	**123**	127
Auditor's remuneration	**1,472**	1,425
Depreciation of property, plant and equipment	**17,347**	17,283
Less: amounts included in contract assets	**(820)**	–
amounts included in productions work in progress	**(679)**	(895)
	15,848	16,388
Exchange gain, net	**(101)**	(82)
Minimum lease payments under operating leases	**2,046**	2,649
Gross rental income from investment properties	**(3,061)**	–
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**185**	–
	(2,876)	–

13. DIVIDENDS

	2018 **HK$'000**	2017 HK$'000
Dividends recognised as distribution during the year:		
2018 special dividend of HK$0.08 (2017: HK$Nil) per ordinary share	**121,460**	–

No dividend has been proposed for ordinary shareholders of the Company since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. (LOSS) EARNINGS PER SHARE

From continuing operations

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

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
(Loss) earnings		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(300,541)**	(29,295)
Less:		
(Loss) profit for the year from discontinued operations	**(310,090)**	12,073
Earnings (loss) for the purposes of basic earnings (loss) per share from continuing operations	**9,549**	(41,368)

	2018	2017
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	**1,518,256**	1,518,256

No diluted (loss) earnings per share for both 2018 and 2017 are presented as there are no potential ordinary shares in issue for both 2018 and 2017.

From continuing and discontinued operations

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

	2018	2017
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic loss per share	**(300,541)**	(29,295)

The denominators used are the same as those detailed above for basic earnings (loss) per share.

From discontinued operations

Basic loss per share for the discontinued operations is HK20.42 cents per share (2017: HK0.79 cents earnings per share), based on the loss for the year from discontinued operations of HK$310,090,000 (2017: profit for the year of HK$12,073,000) and the denominators detailed above for basic (loss) earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improvements	Plant and machinery	Equipment, furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2017	183,017	25,785	66,743	6,721	54,191	4,692	341,149
Exchange realignment	13,842	1,782	5,048	460	4,123	187	25,442
Additions	–	–	–	120	4,366	–	4,486
Disposals	–	(480)	–	(207)	(84)	–	(771)
At 31 December 2017	196,859	27,087	71,791	7,094	62,596	4,879	370,306
Exchange realignment	(12,401)	(1,566)	(4,523)	(337)	(3,061)	(136)	(22,024)
Additions	–	–	–	1,242	1,900	–	3,142
Disposals	–	(291)	–	(198)	(4,983)	–	(5,472)
Transferred to investment properties *(note 16b)*	(184,458)	(23,255)	(67,268)	–	–	–	(274,981)
At 31 December 2018	–	1,975	–	7,801	56,452	4,743	70,971
DEPRECIATION AND AMORTISATION							
At 1 January 2017	23,374	16,027	42,620	4,628	51,300	4,114	142,063
Exchange realignment	1,914	1,242	3,490	394	3,811	149	11,000
Provided for the year	3,931	2,868	7,167	1,749	1,746	175	17,636
Eliminated on disposals	–	(480)	–	(206)	(80)	–	(766)
At 31 December 2017	29,219	19,657	53,277	6,565	56,777	4,438	169,933
Exchange realignment	(2,023)	(1,283)	(3,710)	(311)	(2,024)	(120)	(9,471)
Provided for the year	3,770	2,920	7,320	1,415	2,020	179	17,624
Eliminated on disposals	–	(291)	–	(198)	(4,983)	–	(5,472)
Transferred to investment properties *(note 16b)*	(30,966)	(19,621)	(56,887)	–	–	–	(107,474)
At 31 December 2018	–	1,382	–	7,471	51,790	4,497	65,140
CARRYING VALUES							
At 31 December 2018	–	593	–	330	4,662	246	5,831
At 31 December 2017	167,640	7,430	18,514	529	5,819	441	200,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Building	50 years
Leasehold improvements	Over the shorter of lease term or 10 years
Plant and machinery	10 years
Equipment, furniture and fixtures	5 years
Computer equipment	3 years
Motor vehicles	5 years

The building of the Group is situated on land in the PRC with a lease term of 50 years.

The Group has leased part of its building for rental purpose, and the remaining part was held for office premises for the year ended 31 December 2017. As at 31 December 2017, the management of the Group has classified the entire building as property, plant and equipment and accounted for at cost less accumulated depreciation and accumulated impairment losses as the building cannot be sold separately and the self-occupied portion of the building is not an insignificant portion.

As a result of the abandonment of CG Training operation, the Group has leased the relevant building space to an independent third party to earn rental income since 1 December 2018 and the self-occupied portion of the property has become an insignificant portion. Accordingly, the entire property (including building, the relevant leasehold improvements and plant and machinery) with total carrying value of HK$167,507,000 and the entire prepaid lease payments with carrying value of HK$4,758,000 (note 17) were transferred to investment property on 1 December 2018 and is measured using the fair value model. The fair value of the entire property (including building, the relevant leasehold improvements and plant and machinery) and the entire prepaid lease payments at the date of transfer was HK$233,314,000 in aggregate, resulting in recognition of surplus on revaluation of HK$61,049,000 in other comprehensive income and accumulated in property revaluation reserve.

The fair value at the date of transfer has been determined using income approach by Asset Appraisal Limited ("Asset Appraisal"), an independent qualified professional valuer not connected with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES

	Completed properties – Phase I of the Pearl River Film Cultural Park	Commercial property	Total
	HK$'000	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	
FAIR VALUE			
At 1 January 2017	409,263	–	409,263
Change in fair value recognised in profit or loss	(579)	–	(579)
Exchange realignment	30,932	–	30,932
At 31 December 2017	439,616	–	439,616
Transfer from property, plant and equipment and prepaid lease payments *(notes 15 and 17)*	–	233,314	233,314
Change in fair value recognised in profit or loss	(2,481)	–	(2,481)
Loss on derecognition of investment properties	(411,412)	–	(411,412)
Exchange realignment	(25,723)	2,923	(22,800)
At 31 December 2018	–	236,237	236,237

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	Level 3		Fair value	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Phase I of the Pearl River Film Cultural Park	**–**	439,616	**–**	439,616
Commercial property located in the PRC	**236,237**	–	**236,237**	–
	236,237	439,616	**236,237**	439,616

There was no transfer between different levels during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(Continued)*

All of the Group's property interests held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at 31 December 2018 and 2017 have been arrived at on the basis of valuations carried out by Asset Appraisal, an independent qualified professional valuer not connected with the Group. Asset Appraisal is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience.

As at 31 December 2018, the fair value of the commercial property was determined based on the income approach by capitalising the rental income derived from the existing tenancies with due allowance for reversionary income potential and taking into account of the contractual terms and conditions. Key inputs used in valuing the commercial property include discount rate of 10.4% and average rental of RMB120 per square meter per month. An increase in the discount rate would result in a decrease in fair value of the investment properties and vice versa. An increase in the average rental would result in an increase in fair value of the investment properties, and vice versa.

As at 31 December 2017, the fair value of Phase I of the Pearl River Film Cultural Park was determined based on the income approach by capitalising the rental income derived from the existing tenancies with due allowance for reversionary income potential and taking into consideration the rental payable for the property leasing right to Pearl River Film Production with the assumptions as described above and the allocation basis of the operating lease payments between Phase I and Phase II of the Pearl River Film Cultural Park in the future years would remain the same as if the Framework Agreement (as defined in note 16a) is executing continuously. Key inputs used in valuing Phase I of the Pearl River Film Cultural Park include discount rate which ranges from 6.6% to 7.1% or risk premium of 3.5% and market rental which ranges from RMB47 to RMB525 per square meter per month or land yield rate of 5%. An increase in the discount rate or risk premium would result in a decrease in fair value of the investment properties and vice versa. An increase in the market rental or land yield rate would result in an increase in fair value of the investment properties, and vice versa.

The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(Continued)*

Notes:

(a) The investment properties represent the Group's interest held under an operating lease on a property project based on a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") entered into by Guangdong Cultural Park, a non-wholly-owned subsidiary of the Company and 珠江電影製片有限公司("Pearl River Film Production"), a limited liability company established in the PRC and a state-owned enterprise, to redevelop the Pearl River Film Cultural Park.

Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Cultural Park, in return for predetermined monthly rental payments from Guangdong Cultural Park for a term up to 31 December 2045. Guangdong Cultural Park is responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Cultural Park has to return all properties to Pearl River Film Production.

The Pearl River Film Cultural Park is located at No. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC and the present land use right is owned by Pearl River Film Production. After the redevelopment, the whole Pearl River Film Cultural Park project will have a commercial area, a cultural entertainment area and a film production and development area, which will be held for investment purpose. As at 31 December 2017, Phase I of the Pearl River Film Cultural Park was completed and included as completed properties as further described below.

The property interest under construction represent Phase II of the Pearl River Film Cultural Park which is to be developed as an entertainment and film production and development area and is stated at cost which mainly includes capitalised lease expenses and construction costs as the fair value cannot be reliably measured as at 1 January 2016. The amount has been fully written off in 2016. The original period during which construction was to be completed in accordance with the Framework Agreement has expired.

On 11 April 2016, Pearl River Film Production as the plaintiff (the "Plaintiff") initiated legal proceedings against Guangdong Cultural Park in respect of an alleged breach of the Framework Agreement governing the lease and reconstruction of the Pearl River Film Cultural Park (the "Alleged Breach").

Guangdong Cultural Park received the civil judgment issued on 11 October 2016 by 中國廣東省廣州市中級人民法院 (the "First Civil Judgment"), which declared that the Framework Agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of RMB2,722,000 (equivalent to HK$3,172,000) and Pearl River Film Production, the landlord of the Pearl River Film Cultural Park, is entitled to keep the construction deposit of RMB20,000,000 (equivalent to HK$23,310,000) paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed.

On 16 March 2018, Guangdong Cultural Park received the civil judgment of 中國廣東省高級人民法院 ("Guangdong Higher People's Court") dated 31 January 2018, which rejected the appeal lodged by Guangdong Cultural Park and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

On 7 August 2018, Guangdong Cultural Park received a legal letter dated 6 August 2018 from Pearl River Film Production's legal representative, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for compensation of related occupation fee and economic loss amounted to RMB143,076,000 (equivalent to HK$169,521,000).

In August 2018, the Group has submitted a proposal to Pearl River Film Production with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. No final agreement has been reached between the Group and Pearl River Film Production regarding the proposal.

In September 2018, the corresponding appeal period for the Final Civil Judgement issued by Guangdong Higher People's Court dated 31 January 2018 was lapsed.

At the end of November 2018, Pearl River Film Production has issued a formal demand letter to Guangdong Cultural Park which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and Pearl River Film Production has even attempted to take possession of the Pearl River Film Cultural Park without the consent of the Group.

Guangdong Cultural Park has continued to account for Phase I of the Pearl River Film Cultural Park as investment properties until 30 November 2018 and record the rentals receivable from lessees as the Group's revenue until 30 November 2018, on the basis that the legal contractual right to receive the rental income from the lessees and the rental payable to Pearl River Film Production would remain unchanged and the terms and conditions of the Framework Agreement governing Phase I of the Pearl River Film Cultural Park would continue to be enforceable.

Upon the lapse of the appeal period for the Final Civil Judgement and the recent actions taken by Pearl River Film Production, on 1 December 2018, the Group decided to derecognise the Phase I of the Pearl River Film Cultural Park as investment properties and recognised a loss on derecognition of HK$411,412,000 of Phase I of the Pearl River Film Cultural Park. The Group has also ceased recognising all revenue derived from the Phase I of the Pearl River Film Cultural Park from 1 December 2018. For the year ended 31 December 2018, the Group has made a provision for accrued rental and settlement payables of HK$95,148,000. As a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Pearl River Film Cultural Park operation was discontinued with effect from 1 December 2018. Accordingly, the results of the Pearl River Film Cultural Park operation for the year ended 31 December 2018 are separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

In March 2019, Guangdong Cultural Park received a demand letter dated 7 March 2019 from Pearl River Film Production, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for related occupation fee.

(b) As the self-occupied portion of the property has become an insignificant portion (details as disclosed in note 15), the entire property (including building, the relevant leasehold improvements and plant and machinery) with total carrying value of HK$167,507,000 (note 15) and the entire prepaid lease payments with carrying value of HK$4,758,000 (note 17) were transferred to investment properties on 1 December 2018 and is measured using the fair value model. The fair value of the entire property (including building, the relevant leasehold improvements and plant and machinery) and the entire prepaid lease payments at the date of transfer was HK$233,314,000 in aggregate, resulting in recognition of surplus on revaluation of HK$61,049,000 in other comprehensive income and accumulated in property revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise medium-term leasehold land in the PRC and analysed for reporting purposes as follows:

	2018	2017
	HK$'000	*HK$'000*
Current	**–**	132
Non-current	**–**	5,071
	–	5,203

As the self-occupied portion of the property has become an insignificant portion (details as disclosed in note 15), the entire property (including building, the relevant leasehold improvements and plant and machinery) with total carrying value of HK$167,507,000 (note 15) and the entire prepaid lease payments with carrying value of HK$4,758,000 were transferred to investment property on 1 December 2018 at their fair values (details as disclosed in note 16b).

18. INTEREST IN AN ASSOCIATE

	2018	2017
	HK$'000	*HK$'000*
Cost of investment in an associate-unlisted	**23**	23
Share of post-acquisition results and other comprehensive income	**(23)**	(23)
	–	–

Details of the Group's associate at the end of the reporting period are as follows:

Name of associate	**Place of incorporation/ principal place of business**	**Proportion of ownership interest held by the Group**		**Proportion of voting rights held by the Group**		**Principal activity**
		2018	2017	**2018**	2017	
環球數碼媒體科技(澳門)有限公司 G.D.C Institute of Digital Media Technology (Macau) Limited ("IDMT (Macau)")	Macau	**49%**	49%	**16.7%**	16.7%	Provision of CG animation creation and production services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. INTEREST IN AN ASSOCIATE *(Continued)*

During the year ended 31 December 2017, a subsidiary of the Company had established an associate with independent third parties. Pursuant to the articles of association, the registered capital is MOP50,000, among which, MOP25,500 and MOP24,500 are injected by independent third parties and a subsidiary of the Company, respectively.

No summarised financial information in respect of the Group's associate is set out as the financial information of IDMT (Macau) is considered as insignificant during the years ended 31 December 2018 and 2017.

19. RESTRICTED BANK DEPOSIT

Guangzhou Intermediate People's Court granted an order to preserve the bank deposit of Guangdong Cultural Park and the bank account was frozen on 6 May 2016 pursuant to the legal proceedings against Guangdong Cultural Park in respect of an Alleged Breach (please refer to note 16a for details). The restricted bank deposit is interest free. In April 2018, Guangdong Cultural Park has settled the outstanding late payment surcharges for the overdue rental during the period from 1 October 2015 to 21 March 2016 and Guangzhou Intermediate People's Court has implemented the First Civil Judgment and released the frozen bank account.

20. PROGRAMMES

	2018 ***HK$'000***	2017 *HK$'000*
Television services (net of write-down of HK$11,001,000 at 31 December 2017)	–	5,102
Movies	–	3,239
	–	8,341

Write-down was made on carrying amount of programmes as the estimated selling prices less the cost and the estimated cost necessary to make the sale are lower than the costs incurred.

21. PRODUCTIONS WORK IN PROGRESS

	2018 ***HK$'000***	2017 *HK$'000*
Television series	–	527
Movies	**5,207**	5,876
	5,207	6,403

During the year, the Group transferred HK$8,464,000 (2017: HK$36,740,000) of productions work in progress to programmes when the projects were completed.

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For the year ended 31 December 2018

22. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables		
– goods and services	**3,796**	6,637
– rental	**8,838**	17,393
Less: Impairment loss	**(4,003)**	(2,851)
	8,631	21,179

Except for rental receivable from tenants, which is due for settlement upon issue of invoice, the Group allows different credit periods to its trade customers ranging from 30 days to 120 days, depending on the type of products sold or services provided.

The following is an aged analysis of the trade receivables, net of allowance for doubtful debts, presented based on the invoice date.

	2018	2017
	HK$'000	*HK$'000*
Less than 90 days	**8,129**	19,932
91-180 days	**502**	820
More than 180 days	**–**	427
	8,631	21,179

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In addition, the Group will review the repayment history of trade receivables by each customer with reference to the payment terms to determine the recoverability of trade receivables. Trade receivables that are neither past due nor impaired have good credit quality according to their past repayment history.

As at 31 December 2018, included in the Group's trade receivables balance is debtors with aggregate carrying amount of HK$1,101,000 which are past due as at the reporting date. Out of the past due balances, HK$502,000 has been past due 90 days or more and is not considered as in default based on good repayment records of those customers and their continuous businesses with the Group. The aged analysis is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. The Group does not hold any collateral over these balances.

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For the year ended 31 December 2018

22. TRADE RECEIVABLES *(Continued)*

Movements in the allowance for doubtful debts

	2018	2017
	HK$'000	*HK$'000*
1 January	**2,851**	303
Impairment losses recognised on receivables	**1,347**	2,749
Amounts recovered during the year	**–**	(314)
Exchange realignment	**(195)**	113
31 December	**4,003**	2,851

Details of impairment assessment of trade receivables as at 31 December 2018 are set out in note 40b.

As at 31 December 2017, included in the Group's trade receivables were debtors with an aggregate carrying amount of HK$1,770,000 which was past due at the end of the reporting period for which the Group did not provide for impairment loss as the Directors assessed that the balances would be recovered. The Group did not hold any collateral over these receivables.

Aging of trade receivables which were past due but not impaired:

	2017
	HK$'000
Less than 90 days	523
91-180 days	820
More than 180 days	427
	1,770

23. OTHER RECEIVABLES AND DEPOSITS

	2018	2017
	HK$'000	*HK$'000*
Prepayments	**2,128**	3,931
Other receivables	**940**	1,033
Rental and other deposits	**848**	967
Others	**142**	221
	4,058	6,152

24. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

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25. STRUCTURED DEPOSITS

	2018	2017
	HK$'000	*HK$'000*
Principal-protected financial products	**–**	1,686

As at 31 December 2017, the principal-protected deposits were issued by banks in the PRC carried expected interest rate at 3.9% per annum, depending on the market prices of the financial instruments, including money market instruments and debt instruments. The structured deposits were designated at FVTPL on initial recognition as they contained non-closely related embedded derivative. The Directors considered the fair value of the structured deposits, which was based on the prices the counterparty banks would pay to redeem at 31 December 2017, approximated to their carrying values at 31 December 2017.

26. BANK BALANCES AND CASH

As at 31 December 2018, bank balances (including fixed deposits) carry interests at market rates which range from 0.01% to 3.31% per annum (2017: 0.01% to 3.35% per annum).

27. ADVANCES FROM CUSTOMERS

	2018	2017
	HK$'000	*HK$'000*
Receipt in advance from students	**–**	1,766
Deposits and advance from customers	**–**	1,868
Management service fees in advance from customers	**–**	648
Rental income received in advance from customers	**893**	902
	893	5,184

Upon adoption of HKFRS 15 as at 1 January 2018, advances from customers of HK$1,766,000 in respect of receipt in advance from students, HK$1,868,000 in respect of deposits and advances from CG customers and HK$648,000 in respect of management service fees received in advance from customers previously included in advances from customers are reclassified to contract liabilities.

28. TRADE PAYABLES

The following is an aged analysis at the end of the reporting period of the trade payables presented based on the invoice date:

	2018	2017
	HK$'000	*HK$'000*
Within three months	**3**	757
Over one year	**–**	896
	3	1,653

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

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29. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Accruals	**15,304**	13,515
Accrued rental and settlement payables and late payment surcharge *(note a)*	**128,800**	30,798
Construction cost payables	**2,354**	2,489
Other tax payables	**424**	1,163
Receipt in advance *(note b)*	**17,084**	18,007
Rental deposits from tenants	**15,197**	15,558
Others	**6,777**	11,095
	185,940	92,625

Notes:

(a) As at 31 December 2017, accrued rental payable represented the accrued monthly payments for the property leasing right of the Pearl River Film Cultural Park of HK$27,530,000, which was overdue since March 2016. The Group has revised the estimation basis of accrued rental and settlement payables and further provided HK$95,148,000 during the year ended 31 December 2018. As at 31 December 2018, accrued rental and settlement payables represents the rental receipt derived from Phase I of the Pearl River Film Cultural Park for the period from 22 March 2016 to 31 December 2018, which amounted to HK$120,954,000, and the related interest accrual using the prevailing People's Bank of China Renminbi Lending Rate, which amounted to HK$7,846,000.

In addition, the accrued late payment surcharge for the overdue rental of the Pearl River Film Cultural Park for the period from 1 October 2015 to 21 March 2016 as imposed by the First Civil Judgement (please refer to Note 16a for details), which amounted to HK$3,268,000, has been fully settled in April 2018.

(b) In December 2016, a subsidiary of the Company has entered into a memorandum of understanding with Brilliant Link International Limited ("Brilliant Link"), an independent third party and received an advance payment of RMB15,000,000. The advance payment is unsecured, non-interest bearing and has no fixed repayment terms.

On 17 December 2018, Institute of Digital Media Technology (Shenzhen) Limited*(環球數碼媒體科技研究(深圳)有限公司)("IDMT Shenzhen") and Foshan Global Digital Media Technology Co., Ltd.*(佛山環球數碼媒體科技有限公司)("Foshan GDM"), both indirect wholly-owned subsidiaries of the Company, entered into a cooperation agreement (the "Cooperation Agreement") with Foshan Xincai Property Development Co., Ltd.*(佛山信財置業開發有限公司)("Foshan Xincai") and Brilliant Link, both independent third parties. Pursuant to the Cooperation Agreement, (a) Foshan Xincai agreed to contribute a property located in Foshan to Foshan GDM as capital contribution in exchange for 10% equity interest in Foshan GDM; and (b) Brilliant Link agreed to contribute cash in the amount of RMB26,000,000 in aggregate to Foshan GDM in exchange for 5% equity interest in Foshan GDM. The full amount of the advance payment will form part of the cash consideration payable by Brilliant Link.

Details of the above are set out in announcements of the Company dated 17 December 2018 and 25 January 2019. The transactions with Foshan Xincai and Brilliant Link are not yet completed as at the date of this report.

* The English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. CONTRACT LIABILITIES

The following is an analysis of the Group's contract liabilities:

	As at 31 December 2018	As at 1 January 2018*
	HK$'000	*HK$'000*
Advance from CG customers	**4,804**	1,868
Management service fee received in advance from customers	**491**	648
Receipt in advance from CG Training students	**–**	1,766
	5,295	4,282

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The contract liabilities at 1 January 2018 were fully recognised as revenue in the current year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Revenue from CG creation and production

Contract liability is recognised by the Group for the portion of fees that the Group collected from the customers in relation to performance obligations that have not been satisfied.

– Management service fee

When the Group receives deposits from tenant, this will give rise to contract liability. Revenue is recognised when the management services are provided and the tenant simultaneously receives and consumes the benefits provided by the Group's performance.

– CG Training fee

When the Group receives a deposit before the commencement of CG Training course, this will give rise to contract liability. Revenue is recognised when the relevant services are provided and the student simultaneously receives and consumes the benefits provided by the Group's performance. The Group typically receives a 100% deposit before the CG Training course begins. CG Training operation was discontinued since October 2018 as a result of the abandonment of CG Training business. Details as disclosed in note 11.

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31. DEFERRED INCOME

	2018	2017
	HK$'000	*HK$'000*
Deferred income related to government grants:		
Current portion	**2,521**	2,443
Non-current portion	**–**	2,657
	2,521	5,100

For the year ended 31 December 2018, the Group received government subsidies and awards of HK$Nil (2017: HK$4,792,000) to compensate for the acquisition of fixed assets, staff cost and specific projects for CG production development in the PRC and for an incentive payment to the Group. The amount has been treated as deferred income upon receipt and will be transferred to income upon the completion of the relevant projects in the coming years or over the useful lives of the relevant assets, which is 1 to 5 years. A credit to income of HK$2,405,000 (2017: HK$530,000) is resulted in the current year. As at 31 December 2018, an amount of HK$2,521,000 (2017: HK$5,100,000) remains to be amortised. The current portion of HK$2,521,000 (2017: HK$2,443,000) represents the grants to be amortised to profit or loss in next year.

32. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Fair value change on properties	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	35,590	2,796	38,386
(Credit) charge to profit or loss for the year	(145)	200	55
Exchange realignment	2,688	218	2,906
At 31 December 2017	38,133	3,214	41,347
Credit to profit or loss for the year	(35,918)	(2,168)	(38,086)
Exchange realignment	(2,024)	(182)	(2,206)
Charge to other comprehensive income	15,262	–	15,262
At 31 December 2018	15,453	864	16,317

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33. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	2,400,000,000	24,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 2018	1,518,255,540	15,183

34. SHARE OPTION SCHEME

Share option scheme of the Company

The shareholders of the Company adopted a share option scheme at the annual general meeting on 18 June 2013 (the "2013 Share Option Scheme"). No share option has been granted under the 2013 Share Option Scheme since its adoption.

An option may be exercised at any time during the period to be determined and notified by the Directors to the grantee but may not be exercised after the expiry of ten years from the date of offer of that option. Option is immediately vested at the date of grant and a consideration of HK$1 is payable upon acceptance of the offer.

The exercise price is determined by the Directors, and will not be less than the higher of the nominal value of the share on the date of offer, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

No share option was granted or exercised during the years ended 31 December 2018 and 2017.

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35. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**1,764**	16,312
In the second to fifth years inclusive	**2,181**	65,502
Over five years	**–**	319,444
	3,945	401,258

Note: At 31 December 2018, the lease commitments exclude those relating to Cultural Park operation as a result of the resolution of the litigations in respect of the Pearl River Film Cultural Park.

For the year ended 31 December 2018, operating lease payments represents rentals payable by the Group for certain of its office premises (2017: certain of its office premises, production studios, training centers, staff quarters and occupying the land in Guangzhou for the Pearl River Film Cultural Park project). Leases for properties are in general, negotiated for a term ranging from one to three years (2017: one to three years, except for the operating lease arrangement with Pearl River Film Production for a term up to 31 December 2045).

The Group as lessor

The Group leased part of its investment properties under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 10 years (2017: 1 to 12 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**46,824**	71,014
In the second to fifth years inclusive	**72,868**	159,814
Over five years	**32,862**	49,812
	152,554	280,640

As at 31 December 2018, the above excludes those relating to Cultural Park operation as a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park. The lease payments related to the lease contracts of Pearl River Film Cultural Park as at 31 December 2018 is separately presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. OPERATING LEASES *(Continued)*

The Group as lessor *(Continued)*

	2018
	HK$'000
Within one year	**36,692**
In the second to fifth years inclusive	**86,889**
Over five years	**8,327**
	131,908

36. CAPITAL COMMITMENTS

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment properties	**–**	8,392

37. RETIREMENT BENEFIT SCHEMES

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong and the PRC (collectively the "Retirement Schemes"). No contributions payable to the Retirement Schemes as at 31 December 2018 and 2017 are included in other payables and accruals. There was no forfeited contribution in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RELATED PARTY TRANSACTIONS

a. During the year, the Group entered into the following transaction with related parties:

	Consultancy fee expense	
	2018	2017
	HK$'000	*HK$'000*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	**960**	–

b. **Compensation of key management personnel**

The remuneration of the Directors and other key management personnel during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Short-term benefits	**7,831**	10,321
Post-employment benefits	**263**	360
	8,094	10,681

The remuneration of the Directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth; and to strengthen the Group's financial management capability. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, and total equity, comprising share capital and reserves.

The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS

40a. Categories of financial instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	–	364,147
Financial assets at amortised cost	**283,889**	–
Financial assets at FVTPL	–	1,686
Financial liabilities		
Amortised cost	**146,461**	52,071

40b. Financial risk management objectives and policies

The Group's major financial instruments include restricted bank deposit, trade receivables, other receivables, structured deposits, amount due from an associate, bank balances and cash, trade payables and other payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group earns revenue mainly in RMB and US dollars and incurs costs mainly in RMB and HK$ which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposures. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2018 and 2017, the Group has no significant foreign currency exposure and therefore, no sensitivity analysis is presented.

(ii) Interest rate risk

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Directors believe that the Group's exposures to interest rate changes on structured deposits and bank balances and cash are not significant and therefore, no sensitivity analysis is presented in this regard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers and rental

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate allowance are made for irrecoverable amounts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk for its trade receivables by geographical locations is mainly in the PRC (2017: PRC) in 2018, which accounted for approximately 92% (2017: 98%) of the total trade receivables.

The Group has concentration of credit risk by counterparty as approximately Nil% (2017: 21%) and approximately 38% (2017: 25%) of the total trade receivables was due from the Group's largest customer and five largest customers, respectively, which are major companies in the CG creation and production segment and property leasing and management services segment. The customers are mainly leading film distributors and technology companies. They have good repayment history with no record of late payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40b. Financial risk management objectives and policies *(Continued)*

Restricted bank deposit/structured deposits and bank balance and cash

The credit risk on restricted bank deposit, structured deposits and bank balances and cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired/12m ECL	12m ECL
Watch list	Debtor frequently settles after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40b. Financial risk management objectives and policies *(Continued)*

Restricted bank deposit/Structured deposits and bank balance and cash (Continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	*Notes*	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amounts** *HK$'000*
Financial assets at amortised cost				
Trade receivables	*22*	Low risk	Lifetime ECL (not credit impaired)	9,102
		Loss	Credit impaired	3,532
				12,634
Other receivables	*23*	Low risk	12m ECL	940
Amount due from an associate	*24*	Low risk	12m ECL	1,185

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rates, the undiscounted cash flows are estimated by using interest rate at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40b. Financial risk management objectives and policies *(Continued)*

Liquidity table

	Weighted average effective interest rate *%*	Repayable on demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	Total undiscounted cash flows as at 31.12.2018 *HK$'000*	Carrying amount as at 31.12.2018 *HK$'000*
2018					
Trade payables	–	3	–	3	3
Other payables	–	–	146,458	146,458	146,458
		3	146,458	146,461	146,461

	Weighted average effective interest rate *%*	Repayable on demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	Total undiscounted cash flows as at 31.12.2017 *HK$'000*	Carrying amount as at 31.12.2017 *HK$'000*
2017					
Trade payables	–	762	891	1,653	1,653
Other payables	–	1,499	48,919	50,418	50,418
		2,261	49,810	52,071	52,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liability.

Fair value of the Group's financial assets and financial liability that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique and key inputs**	**Relationship of unobservable inputs to fair value**
	31 December 2018	**31 December 2017**			
Structured deposits	–	Bank deposits in the PRC with non-closely related embedded derivative: HK$1,686,000	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.	The higher the expected yield, the higher the fair value
				Future cash flows which are estimated based on observable bank interest rates of nil (2017: 3.9%) and a discount rate that reflects the credit risk of the banks *(note)*	The higher the discount rate, the lower the fair value

Note: The Directors consider that the impact of the fluctuation in expected yields of the money market instruments and debt instruments to the fair value of the structured deposits was insignificant as the deposits have short maturities, and therefore no reconciliation of level 3 fair value measurements of financial assets is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

40c. Fair value measurements of financial instruments *(Continued)*

Fair value of the Group's financial assets and financial liability that are measured at fair value on a recurring basis (Continued)

Unrealised fair value gain of HK$Nil (2017: HK$5,000) is recognised in profit or loss relating to the change in fair value of structured deposits. Fair value gain on structured deposits is included in "other gains and losses".

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures required)

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2018	2017	**2018**	2017	
			%	%	**%**	%	
GDC Holdings Limited	British Virgin Islands ("BVI")/ Hong Kong	US$5,214,181 (ordinary share)	**100**	100	**–**	–	Investment holding
GDC Asset Management Limited	BVI/ Hong Kong	US$1 (ordinary share)	**–**	–	**100**	100	Animation investment
GDC China Limited	Hong Kong	HK$2 (ordinary share)	**–**	–	**100**	100	Investment holding
GDC International Limited	Samoa/ Hong Kong	US$1 (ordinary share)	**–**	–	**100**	100	Provision of CG animation creation and production services
GDC Management Services Limited	Hong Kong	HK$2 (ordinary share)	**–**	–	**100**	100	Provision of administration and management service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2018	2017	**2018**	2017	
			%	%	**%**	%	
GDC Cultural Parks Limited (formerly known as Shougang GDC Media Holding Limited)	Hong Kong	HK$1 (ordinary share)	**–**	–	**100**	100	Investment holding
GDC International Limited	Hong Kong	HK$1 (ordinary share)	**–**	–	**100**	100	Provision of CG animation creation and production services
廣東環球數碼創意產業有限公司 *(note a)*	The PRC	RMB10,000,000	**–**	–	**68**	68	Provision of culture, entertainment and related commercial property investment
環球數碼媒體科技研究（深圳）有限公司 *(note b)*	The PRC	US$36,633,896	**–**	–	**100**	100	Provision of CG and animation creation and production services, development of multimedia software and hardware, provision of related technical consultancy services and property holding
深圳市環球數碼影視文化有限公司 *(note c)*	The PRC	RMB3,000,000	**–**	–	**100**	100	Animation Investment
深圳市南山區環球數碼培訓學校 *(note d)*	The PRC	RMB200,000	**–**	–	**100**	100	Provision of CG and animation training

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2018	2017	**2018**	2017	
			%	%	**%**	%	
廣州高尚商業經營管理有限公司 *(note b)*	The PRC	RMB1,000,000	**–**	–	**68**	68	Provision of building management service
北京風雲環球數碼傳媒技術有限公司 *(note c)*	The PRC	RMB15,000,000	**–**	–	**100**	100	Provision of graphic animation creation
深圳市環球數碼創意科技有限公司 *(note c)*	The PRC	RMB2,000,000	**–**	–	**70**	70	Provision of graphic animation creation
深圳市環球物業管理有限公司 *(note c)*	The PRC	RMB1,000,000	**–**	–	**100**	100	Provision of building management service
佛山環球數碼媒體科技有限公司 *(note c)*	The PRC	RMB10,000,000	**–**	–	**100**	100	Provision of CG and animation creation and production services

Notes:

(a) Sino-foreign equity joint venture

(b) Wholly foreign-owned enterprise

(c) Limited liability company

(d) Private non-enterprise institution

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Place of establishment and operation	Principal activities	Proportion of ownership interest and voting right held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
			2018	2017	**2018**	2017	**2018**	2017
			%	*%*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
廣東環球數碼創意產業有限公司	The PRC	Provision of culture, entertainment and related commercial property investment	**32**	32	**(146,131)**	5,352	**(123,055)**	25,778
Individually immaterial subsidiaries with non-controlling interests							**(531)**	(696)
							(123,586)	25,082

Guangdong Cultural Park is a private company established in the PRC, which was acquired in 2010 in order to provide the Group an opportunity to participate in the culture, entertainment and related commercial property investment business in the PRC.

The Group has indirect ownership interest of 68% in Guangdong Cultural Park, which is held by GDC Cultural Parks Limited (formerly known as Shougang GDC Media Holding Limited), a wholly owned subsidiary of the Company. The remaining 32% non-controlling interest in Guangdong Cultural Park is held by an individual. The Directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Guangdong Cultural Park on the basis of the Group's absolute size of equity interest and the relative size of the equity interest owned by the other equity owner.

Summarised financial information in respect of Guangdong Cultural Park is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

	2018	2017
	HK$'000	*HK$'000*
Current assets	**2,542**	14,206
Non-current assets	**251**	487,956
Current liabilities	**(387,339)**	(380,981)
Non-current liabilities	**–**	(40,625)
Equity attributable to owners of the Company	**(261,491)**	54,778
Non-controlling interests	**(123,055)**	25,778
Revenue	**40,837**	46,704
Loss on derecognition of investment properties	**(411,412)**	–
Decrease in fair value of investment properties	**(2,481)**	(579)
Rental and settlement expenses	**(95,148)**	(10,219)
Other expenses	**(25,870)**	(18,620)
Income tax credit (expense)	**37,416**	(561)
(Loss) profit for the year	**(456,658)**	16,725
(Loss) profit attributable to owners of the Company	**(310,527)**	11,373
(Loss) profit attributable to the non-controlling interests	**(146,131)**	5,352
(Loss) profit for the year	**(456,658)**	16,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

	2018 HK$'000	2017 HK$'000
Other comprehensive (expenses) income attributable to owners of the Company	**(5,742)**	3,589
Other comprehensive (expenses) income attributable to the non-controlling interests	**(2,702)**	1,689
Other comprehensive (expense) income for the year	**(8,444)**	5,278
Total comprehensive (expenses) income attributable to owners of the Company	**(316,269)**	14,962
Total comprehensive (expenses) income attributable to the non-controlling interests	**(148,833)**	7,041
Total comprehensive (expenses) income for the year	**(465,102)**	22,003
Net cash inflow from operating activities	**76,603**	6,722
Net cash (outflow) inflow from investing activities	**(6)**	10
Net cash outflow from financing activities	**(76,799)**	(9,274)
Net cash outflow	**(202)**	(2,542)

42. LITIGATION

The litigations related to the Alleged Breach of the Pearl River Film Cultural Park is resolved during the year end 31 December 2018. Details are set out in note 16a.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITY

The table below details changes in the Group's liabilities arising from financing activity, including both cash and non-cash changes. Liabilities arising from financing activity are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activity.

	Dividend payable *HK$'000*	**Total** *HK$'000*
At 1 January 2018	–	–
Financing cash flow	(121,460)	(121,460)
Dividends recognised as distribution	121,460	121,460
At 31 December 2018	–	–

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 ***HK$'000***	2017 *HK$'000*
Non-current asset		
Investment in a subsidiary	**–**	–
Current assets		
Prepayment, deposits and other receivables	**323**	311
Amount due from a subsidiary	**–**	944
Bank balances and cash	**892**	386
	1,215	1,641
Current liability		
Other payables and accruals	**790**	1,039
Net current assets	**425**	602
Net assets	**425**	602
Capital and reserve		
Share capital	**15,183**	15,183
Reserve	**(14,758)**	(14,581)
Total equity	**425**	602

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Movement in the Company's reserves

	Share premium reserve	**Contributed surplus reserve**	**Dividend distribution reserve**	**Deficit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	75,856	215,102	–	(305,836)	(14,878)
Profit and total comprehensive income for the year	–	–	–	297	297
At 31 December 2017	75,856	215,102	–	(305,539)	(14,581)
Profit and total comprehensive income for the year	–	–	–	121,283	121,283
Transfer to dividend distribution reserve	–	–	121,460	(121,460)	–
Dividends paid	–	–	(121,460)	–	(121,460)
At 31 December 2018	75,856	215,102	–	(305,716)	(14,758)

45. EVENT AFTER THE REPORTING PERIOD

On 21 November 2018, SCG Investment (BVI) Limited (a wholly owned subsidiary of Shougang Grand), as vendor, entered into sale and purchase agreement with Shougang Holding, a company incorporated in Hong Kong with limited liability, as purchaser, in relation to the disposal of Upper Nice Assets Ltd., which holds 619,168,023 shares, representing approximately 40.78% equity interests of the Company (the "Disposal"). The Disposal was completed on 8 January 2019 and the Company would become an associate of Shougang Holding.

Details of the above are set out in announcement of the Company dated 21 November 2018.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2014 *HK$'000* (Restated)	2015 *HK$'000* (Restated)	2016 *HK$'000* (Restated)	2017 *HK$'000* (Restated)	**2018** ***HK$'000***
Continuing operations					
Revenue	147,015	116,670	96,454	80,762	**107,642**
Profit (loss) from operations	31,533	(2,778)	13,358	(40,882)	**21,004**
Finance costs	(6,761)	(2,559)	–	–	**–**
Share of loss of an associate	–	–	–	(23)	**–**
Profit (loss) before tax	24,772	(5,337)	13,358	(40,905)	**21,004**
Income tax expense	(5,607)	(1,156)	(4,800)	(535)	**(11,320)**
Profit (loss) for the year from continuing operations	19,165	(6,493)	8,558	(41,440)	**9,684**
Discontinued operations					
Profits (loss) for the year from discontinued operations	13,454	26,678	(103,852)	17,425	**(456,221)**
Profits (loss) for the year	32,619	20,185	(95,294)	(24,015)	**(446,537)**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Total assets	1,279,906	1,147,370	996,785	1,030,888	**534,282**
Total liabilities	(240,166)	(150,125)	(151,559)	(155,133)	**(223,447)**
Net assets	1,039,740	997,245	845,226	875,755	**310,835**

PARTICULARS OF PROPERTIES

Details of the Group's properties at the end of the reporting period are as follows:

Location	Existing use	Lease term	Attributable interest of the Group
Investment properties			
No. 9, Gaoxin Central Avenue 3rd Nanshan District, Shenzhen the People's Republic of China	Commercial	Medium	100%