

G·D·C

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)



INTERIM REPORT
2014

** For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS

CORPORATE INFORMATION	3
INTERIM RESULTS	
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....	5
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	7
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	9
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS.....	11
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	12
REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	27
MANAGEMENT DISCUSSION AND ANALYSIS.....	29
INTERIM DIVIDEND	34
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES	34
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES	35
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES.....	35
SUBSTANTIAL SHAREHOLDERS	36
SHARE OPTION SCHEME	36
DIRECTORS' INTERESTS IN COMPETING BUSINESSES	37
COMPLIANCE WITH CORPORATE GOVERNANCE CODE.....	37
COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS	37
CHANGE IN DIRECTORS' INFORMATION	37
AUDIT COMMITTEE	37
APPRECIATION	38

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng (*Chief Executive Officer*)
Mr. Jin Guo Ping (*Vice President*)

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent non-executive Directors

Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Executive Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng
Mr. Jin Guo Ping

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Nomination Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Leung Shun Sang, Tony (*Vice Chairman*)
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)
Mr. Li Shaofeng (*Vice Chairman*)
Mr. Leung Shun Sang, Tony
Mr. Kwong Che Keung, Gordon
Mr. Chan Chung Chun

Compliance Officer

Mr. Chen Zheng

Company Secretary

Ms. Kam Man Yi, Margaret

CORPORATE INFORMATION *(Continued)*

Authorised Representatives	Mr. Chen Zheng Ms. Kam Man Yi, Margaret
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Unit 1-7, 20/F., Kodak House II 39 Healthy Street East North Point Hong Kong
Stock Code	8271
Website	www.gdc-world.com

INTERIM RESULTS

The board of Directors of the Company (the “Board”) hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2014 with comparative figures for the corresponding period in the year 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	NOTES	Three months ended 30 June		Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	4	65,794	55,928	102,443	84,594
Cost of sales		(39,674)	(28,830)	(63,071)	(49,267)
Gross profit		26,120	27,098	39,372	35,327
Other income	5	19,838	15,125	26,887	38,681
Distribution costs and selling expenses		(12,227)	(11,518)	(15,092)	(13,962)
Administrative expenses		(14,486)	(16,619)	(30,126)	(32,654)
Finance costs	6	(1,754)	(2,302)	(3,661)	(4,676)
Other gains and losses	7	(5,772)	873	11,009	381
Profit before tax		11,719	12,657	28,389	23,097
Income tax credit (expense)	8	475	(5,651)	(303)	(6,103)
Profit for the period	9	12,194	7,006	28,086	16,994
Other comprehensive income (expenses)					
Item that will not be subsequently reclassified to profit or loss:					
Exchange differences on translation of financial statements from functional currency to presentation currency		29	11,233	(20,637)	11,233
Total comprehensive income for the period		12,223	18,239	7,449	28,227

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2014

	NOTE	Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Profit (loss) for the period attributable to:					
Owners of the Company		14,249	11,389	32,645	24,243
Non-controlling interests		(2,055)	(4,383)	(4,559)	(7,249)
		12,194	7,006	28,086	16,994
Total comprehensive income (expenses) for the period attributable to:					
Owners of the Company		14,306	21,419	13,380	34,273
Non-controlling interests		(2,083)	(3,180)	(5,931)	(6,046)
		12,223	18,239	7,449	28,227
		HK cents	HK cents	HK cents	HK cents
Earnings per share Basic and diluted	11	0.94	0.75	2.15	1.60

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	273,409	287,135
Investment properties	13	537,086	544,327
Prepaid lease payments		5,757	5,979
Available-for-sale investments	14	85,018	85,034
Other receivables and deposits	15	25,000	25,641
		926,270	948,116
Current assets			
Productions work in progress		1,862	6,541
Amounts due from customers for contract work		9,096	5,521
Trade receivables	16	38,554	17,066
Other receivables and deposits	15	17,588	12,988
Prepaid lease payments		141	141
Held-for-trading investments	17	25,200	36,833
Structured deposits	18	83,911	185,164
Other financial assets	19	43,783	–
Bank balances and cash		107,581	93,351
		327,716	357,605
Current liabilities			
Advances from customers		13,855	10,433
Amounts due to customers for contract work		1,724	4,361
Trade payables	20	1,147	2,583
Other payables and accruals		73,320	98,842
Tax liabilities		5,029	11,021
Deferred income		7,986	12,100
Secured bank borrowings			
– due within one year	21	40,000	35,897
		143,061	175,237
Net current assets		184,655	182,368
Total assets less current liabilities		1,110,925	1,130,484

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Non-current liabilities			
Deferred income		2,843	4,252
Deferred tax liabilities		40,892	41,940
Secured bank borrowings – due after one year	21	57,500	82,051
		101,235	128,243
Net assets			
		1,009,690	1,002,241
Capital and reserves			
Share capital	22	15,183	15,183
Reserves		954,326	940,946
Equity attributable to owners of the Company		969,509	956,129
Non-controlling interests		40,181	46,112
Total equity		1,009,690	1,002,241

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company											
	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained profits	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000 (Note d)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014 (audited)	15,183	75,856	445	245,881	870	-	73,264	39	544,591	956,129	46,112	1,002,241
Profit (loss) for the period	-	-	-	-	-	-	-	-	32,645	32,645	(4,559)	28,086
Other comprehensive expenses	-	-	-	-	-	-	(19,265)	-	-	(19,265)	(1,372)	(20,637)
Total comprehensive (expenses) income for the period	-	-	-	-	-	-	(19,265)	-	32,645	13,380	(5,931)	7,449
At 30 June 2014 (unaudited)	15,183	75,856	445	245,881	870	-	53,999	39	577,236	969,509	40,181	1,009,690
At 1 January 2013 (audited)	15,183	75,856	445	245,881	680	16,895	55,489	39	494,053	904,521	54,971	959,492
Profit (loss) for the period	-	-	-	-	-	-	-	-	24,243	24,243	(7,249)	16,994
Other comprehensive income	-	-	-	-	-	-	10,030	-	-	10,030	1,203	11,233
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	10,030	-	24,243	34,273	(6,046)	28,227
Sub-total	15,183	75,856	445	245,881	680	16,895	65,519	39	518,296	938,794	48,925	987,719
Lapse of share options granted	-	-	-	-	-	(160)	-	-	160	-	-	-
At 30 June 2013 (unaudited)	15,183	75,856	445	245,881	680	16,735	65,519	39	518,456	938,794	48,925	987,719

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2014

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 approximately HK\$40,271,000 and; (2) the transfer of the share premium reserve of approximately HK\$589,670,000 as at 31 December 2007 to contributed surplus reserve which was applied to eliminate the deficit of the Company of approximately 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 this condensed 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) Special reserve as at 30 June 2014 represented the difference between the proceed and the carrying amount of the net assets attributable to the disposal of partial interest of a PRC subsidiary during the year ended 31 December 2012 amounting to approximately HK\$39,000.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Operating activities		
Profit before tax	28,389	23,097
Decrease in programmes	–	326
(Increase) decrease in amounts due from customers for contract work	(2,642)	1,003
Increase in trade receivables	(21,615)	(21,748)
(Increase) decrease in other receivables and deposits	(4,925)	897
Changes in fair value of held-for-trading investments	(10,528)	318
Decrease in held-for-trading investments	22,161	–
(Decrease) increase in amounts due to customers for contract work	(2,528)	2,079
Decrease in trade payables	(1,371)	(357)
(Decrease) increase in other payables and accruals	(8,166)	6,880
Income tax paid	(6,031)	(598)
Other operating cash flows	(4,459)	(9,059)
Net cash (used in) from operating activities	(11,715)	2,838
Investing activities		
Redemption of structured deposits	786,785	355,625
Dividends received	17,683	13,823
Purchases of structured deposits	(689,967)	(505,625)
Purchase of other financial assets	(43,783)	(1,266)
Settlement of construction payable	(15,018)	(36,021)
Additions in investment properties	(6,367)	(3,466)
Purchase of property, plant and equipment	(4,836)	(5,002)
Other investing cash flows	3,458	5,770
Net cash from (used in) investing activities	47,955	(176,162)
Financing activities		
Repayment of bank borrowings	(17,500)	(15,000)
Interest paid	(3,661)	(4,676)
Cash used in financing activities	(21,161)	(19,676)
Net increase (decrease) in cash and cash equivalents	15,079	(193,000)
Cash and cash equivalents at beginning of the period	93,351	309,178
Effect of foreign exchange rate changes	(849)	1,596
Cash and cash equivalents at end of the period, comprising bank balances and cash	107,581	117,774

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM” Rules).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the current interim period. The application of the new interpretation and amendments to HKFRSs in the current interim period has had no material effect on amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the Chief Executive Officer 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. The Group is currently organised into three operating divisions. These operating divisions are the basis upon which the information that is regularly reviewed by the CODM is prepared and are analysed under HKFRS 8 as follows:

- Computer graphic (“CG”) creation and production – CG creation and production, exhibition of television series and movies as well as property rental income and building management service fee income
- CG training – provision of CG and animation training
- Cultural park – media entertainment and related commercial property investment

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2014

3. SEGMENT INFORMATION *(Continued)*

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

Six months ended 30 June 2014 (unaudited)

	CG creation and production <i>HK\$'000</i>	CG training <i>HK\$'000</i>	Cultural park <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>77,682</u>	<u>7,376</u>	<u>17,385</u>	<u>102,443</u>
Segment result	<u>5,106</u>	<u>(1,195)</u>	<u>3,507</u>	<u>7,418</u>
Unallocated income				<u>29,353</u>
Unallocated expenses				<u>(8,382)</u>
Profit before tax				<u>28,389</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2013 (unaudited)

	CG creation and production HK\$'000	CG training HK\$'000	Cultural park HK\$'000	Consolidated HK\$'000
Revenue	69,033	7,507	8,054	84,594
Segment result	24,693	(713)	(4,736)	19,244
Unallocated income				13,964
Unallocated expenses				(10,111)
Profit before tax				23,097

All of the segment revenue reported above is from external customers.

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

Segment assets

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
CG creation and production	504,083	538,737
CG training	13,903	15,841
Cultural park	578,178	588,964
Total segment assets	1,096,164	1,143,542

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

4. REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue from contracts for CG creation and production (Note)	41,959	37,286	55,564	53,269
Rental and building management service fee income	20,288	14,902	39,503	23,818
CG training fee	3,547	3,740	7,376	7,507
	65,794	55,928	102,443	84,594

Note: During the six months ended 30 June 2014, an amount of approximately HK\$21,052,000 (six months ended 30 June 2013: HK\$25,600,000) was attributable to revenue from the release of two animated films (six months ended 30 June 2013: one animated film) based on an agreed sharing percentage of the box office receipts.

5. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Interest income	1,376	2,217	3,458	5,767
Government grants (Note 1)	696	5,955	5,553	14,108
Dividend income from available-for-sale investments	17,683	6,912	17,683	13,823
Compensation income (Note 2)	–	–	–	4,750
Others	83	41	193	233
	19,838	15,125	26,887	38,681

Note 1. During the six months ended 30 June 2014, government grants mainly represent subsidies of HK\$3,938,000 (six months ended 30 June 2013: HK\$13,289,000) received from the relevant PRC authorities in PRC, of which an amount of HK\$2,500,000 (six months ended 30 June 2013: HK\$11,289,000) is intended to compensate for the insurance expense (six months ended 30 June 2013: staff costs, interest expenses, insurance expenses and export related expenses) incurred by the Group primarily in CG production and exhibition of motion pictures, and the remaining amount of HK\$1,438,000 (six months ended 30 June 2013: HK\$2,000,000) is an incentive payment to the Group whereby no future related cost is required or expected to be made.

In addition, an amount of HK\$1,615,000 (six months ended 30 June 2013: HK\$819,000) is related to government grants on computer equipment acquisition which are amortised to profit or loss on a straight-line basis over the estimated useful life of the acquired assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

5. OTHER INCOME (Continued)

Note 2. From September 2011 to November 2012, the training online enrolment website of a wholly-owned PRC subsidiary of the Company was hacked. The case was passed to the relevant law enforcement authorities in April 2012, all hackers were arrested in Shenzhen by November 2012. Investigations revealed that the hackers were appointed by the Group's competitor. To compensate for the economic loss suffered by the Group, the competitor made an offer of RMB3,800,000 (equivalent to HK\$4,750,000) on 24 January 2013. The Group accepted the offer and reached the settlement agreement with the competitor on 25 January 2013. It was agreed that no further civil liability against the competitor on the above issue would be claimed.

The compensation amounting to HK\$4,750,000 was recognised as other income in the six months ended 30 June 2013.

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Interest on bank borrowings wholly repayable within five years	1,754	2,302	3,661	4,676

7. OTHER GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Changes in fair value of held-for-trading investments (Note)	(5,938)	174	10,528	(318)
Changes in fair value of structured deposits	166	699	181	699
Recovery of allowance for doubtful debts	-	-	300	-
	(5,772)	873	11,009	381

Note: During the six months ended 30 June 2014, an amount of approximately HK\$11,052,000 (six months ended 30 June 2013: Nil) was attributable to the realised gain on fair value change of held-for-trading investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2014

8. INCOME TAX (CREDIT) EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
PRC Enterprise Income Tax ("EIT"):				
Current tax	(196)	5,651	582	6,103
Overprovisions in prior years	(279)	–	(279)	–
Income tax (credit) expense	<u>(475)</u>	<u>5,651</u>	<u>303</u>	<u>6,103</u>

No provision for Hong Kong Profits Tax has been made in the condensed consolidated statement of profit or loss and other comprehensive income for both periods since the assessable profit is wholly absorbed by tax losses brought forward for the six months ended 30 June 2014 (six months ended 30 June 2013: the Group had no assessable profit arising in Hong Kong).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Rules of the EIT Law, the EIT rate of the Group's PRC subsidiaries is 25% for both periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2014

9. PROFIT FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Profit for the period has been arrived at after charging:				
Write-down on programmes (included in cost of sales)	-	-	-	299
Amortisation of prepaid lease payments	34	35	69	69
Depreciation of property, plant and equipment	5,678	5,038	11,420	10,110
Less: amounts included in contract costs	(1,197)	(572)	(1,741)	(1,045)
amounts included in productions work in progress	(127)	-	(162)	-
	<u>4,354</u>	<u>4,466</u>	<u>9,517</u>	<u>9,065</u>
Advertising expenses (included in distribution costs and selling expenses)	11,018	11,032	12,922	11,907
Staff costs	29,525	31,214	56,772	58,630
Less: amounts included in contract costs	(7,737)	(7,755)	(12,080)	(15,613)
amounts included in productions work in progress	(990)	(242)	(1,401)	(644)
	<u>20,798</u>	<u>23,217</u>	<u>43,291</u>	<u>42,373</u>
Contract costs recognised as an expense				
Staff costs	9,732	9,964	19,544	18,089
Others	17,797	9,380	19,837	15,574
	<u>27,529</u>	<u>19,344</u>	<u>39,381</u>	<u>33,663</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2014

10. DIVIDENDS

The board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

11. EARNINGS PER SHARE

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

Three months ended 30 June		Six months ended 30 June	
2014	2013	2014	2013
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(unaudited)	(unaudited)	(unaudited)	(unaudited)

Earnings

Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)

14,249	11,389	32,645	24,243
<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>

Number of shares

Number of ordinary shares in issue for the purposes of basic and diluted earnings per share

1,518,256	1,518,256	1,518,256	1,518,256
------------------	-----------	------------------	-----------

All the share options under the share option scheme adopted by the Company on 18 July 2003 (the "2003 Share Option Scheme") of the Company were lapsed in August 2013. The computation of diluted earnings per share for the three months and six months ended 30 June 2013 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price of the shares for the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

12. PROPERTY, PLANT AND EQUIPMENT

	Carrying values	
	2014	2013
	HK\$'000	HK\$'000
At 1 January (audited)	287,135	291,456
Exchange realignment	(7,142)	3,542
Additions	4,836	5,002
Depreciation for the period	(11,420)	(10,110)
Disposals	-	(2)
	<hr/>	<hr/>
At 30 June (unaudited)	273,409	289,888

During the six months ended 30 June 2014, the management of the Group performed an impairment assessment on the cash generating unit ("CGU") relating to the CG training segment whereby property, plant and equipment with aggregate carrying amount of approximately HK\$5,088,000 as at 30 June 2014 are included. The recoverable amount of this CGU has been determined based on value in use calculations. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 8%.

Cash flows projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins were determined based on past performance and the management's expectation for the market development. Cash flows beyond the five-year period is extrapolated using a growth rate of 4%. The recoverable amount exceed the carrying amount of the CGU and accordingly no impairment of the assets the CGU is considered necessary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

13. INVESTMENT PROPERTIES

	Completed properties		Properties interest under construction		Total	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
At 1 January (audited)	474,359	449,250	69,968	55,585	544,327	504,835
Exchange realignment	(11,859)	5,687	(1,749)	704	(13,608)	6,391
Additions	—	—	6,367	3,466	6,367	3,466
At 30 June (unaudited)	462,500	454,937	74,586	59,755	537,086	514,692

The investment properties represent the properties interest held under an operating lease on a property project which arose from a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") entered into by 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park") a 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 (the "Cultural Park").

Pearl River Film Production, as the landlord of the Cultural Park, agreed to grant the property leasing right to Guangdong Cultural Park, in return for predetermined monthly payment 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 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 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 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 properties purpose.

The properties interests under construction represent Phase II of the Cultural Park which is to be developed as an entertainment and film production and development area and are stated at cost as the fair value cannot be reliably measured as at 30 June 2014.

The completed properties represent Phase I of the Cultural Park which is a shopping mall and are stated at the fair value as at 30 June 2014 and 31 December 2013. The fair value as at 30 June 2014 and 31 December 2013 has been arrived at on the basis of a valuation carried out by the management of the Group and Savills Valuation and Professional Services Limited ("Savills"), independent qualified professional valuers not connected with the Group, respectively. The valuation carried out by the management of the Group on 30 June 2014 has been performed with reference to the valuation technique carried out by Savills on 31 December 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

13. INVESTMENT PROPERTIES (Continued)

The fair value was determined based on the income approach by capitalising the rental income with due allowance for reversionary income potential and taking into consideration the rental payable to Pearl River Film Production. 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 Guangzhou and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

There has been no change to the valuation technique during the interim period and no change in fair value of investment properties has been recognised directly in profit or loss for the six months ended 30 June 2014.

Key inputs used in valuing the investment properties include discount rate which ranges from 5.5% to 7.5% and market rental ranges from RMB40 to RMB428 per square metre per month. An increase in the discount rate and market rental would result in a decrease and increase respectively, in fair value measurement of the investment properties, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at 30 June 2014 are as follows:

	Level 3 HK\$'000	Fair value as at 30 June 2014 HK\$'000
Cultural Park Phase I	462,500	462,500

There was no transfer between different levels for the period.

14. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
11.38% equity interest in GDC Technology Limited	84,393	84,393
5% equity interest in a private entity established in the PRC	625	641
	85,018	85,034

These investments are measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimate is so significant that the Directors are of the opinion that the fair value cannot be measured reliably.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2014

15. OTHER RECEIVABLES AND DEPOSITS

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Deposits	26,035	26,586
Loan receivables <i>(Note 1)</i>	5,250	–
Others	11,303	12,043
	42,588	38,629
Analysed for reporting purposes as:		
Current	17,588	12,988
Non-current <i>(Note 2)</i>	25,000	25,641
	42,588	38,629

Note 1. The amounts represent loans advanced to a corporation on 18 June 2014 for a term of three months which bear interest at a fixed rate of 10% per annum.

Note 2. The non-current deposit was paid by Guangdong Cultural Park to Pearl River Film Production of RMB20,000,000 for the development of the Cultural Park in 2010. The deposit is refundable upon the completion of the entire project.

16. TRADE RECEIVABLES

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Trade receivables	38,554	17,369
Less: allowance for doubtful debts	–	(303)
	38,554	17,066

Except for rental income receivable from tenants, which is due for settlement upon issue of invoices, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

16. TRADE RECEIVABLES (Continued)

The following is an aged analysis at the end of the reporting period of trade receivables, net of allowance for doubtful debts:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Within three months	37,503	16,975
Three to six months	1,019	–
Over six months	32	91
	38,554	17,066

17. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 30 June 2014 and 31 December 2013 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange of Hong Kong Limited. The fair value of held-for-trading investments was classified as Level 1 of the fair value hierarchy. There were no transfers between Level 1 and 2 during the period.

18. STRUCTURED DEPOSITS

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Principal-protected financial products	83,911	185,164

The structured deposits as at 30 June 2014 and 31 December 2013 are principal-protected deposits issued by banks in the PRC. The principal-protected deposits carry interest rates ranging from 3.3% to 4.3% (31 December 2013: 3.6% to 5.6%) per annum, depending on the market prices of financial instruments, including money market instruments and debt instruments. The structured deposits are designated at fair value through profit or loss on initial recognition as they contain non-closely related embedded derivative. The Directors consider the fair values of the structured deposits, which are determined on the prices the counterparty banks would pay to redeem at 30 June 2014, approximate to their carrying values at 30 June 2014. The fair value of the structured deposits was classified as Level 2 of the fair value hierarchy. There were no transfers between Level 1 and 2 during the period.

The structured deposits of approximately HK\$32,534,000 have been redeemed in July 2014. The change in fair value up to the date of redemption is not significant. The structured deposits of approximately HK\$51,377,000 do not have specific redemption date and can be redeemed any time before expiry date in April 2015. The change in fair value up to the date of report is not significant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

19. OTHER FINANCIAL ASSETS

The other financial assets as at 30 June 2014 are principal-protected deposits issued by banks in the PRC which carry fixed interest rates of 4.6% per annum. The other financial assets are classified as loans and receivables as they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The other financial assets are measured at cost less impairment at the end of reporting period.

20. TRADE PAYABLES

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

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Within three months	51	1,626
Three to six months	56	–
Over six months	1,040	957
	1,147	2,583

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

21. SECURED BANK BORROWINGS

As at 30 June 2014, the Group's borrowings are variable-rate obtained for financing the construction cost of the building in the PRC and are denominated in Renminbi, secured by the Group's pledge of building and plant and machinery and prepaid lease payments, and carried interest at the People's Bank of China Renminbi Lending Rate per annum. The interest rates (which are also equal to contracted interest rate) in the Group's bank borrowing is 6.55% (31 December 2013: 6.55%) per annum. Interest is repriced every year.

During the six months ended 30 June 2014, the Group repaid bank borrowings of approximately HK\$17,500,000 (six months ended 30 June 2013: HK\$15,000,000) in accordance with the repayment terms.

22. SHARE CAPITAL

Share capital as at 30 June 2014 amounted to approximately HK\$15,183,000. There were no movements in the share capital of the Company in the current or the prior interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

23. CAPITAL COMMITMENTS

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of additions in investment properties	11,019	12,736

24. SHARE-BASED PAYMENTS

The 2003 Share Option Scheme was terminated at the annual general meeting of the Company on 18 June 2013. There were no outstanding options under the 2003 Share Option Scheme as at 31 December 2013.

The shareholders of the Company adopted a new 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.

No share option was granted or exercised during the six months ended 30 June 2013. 600,000 (six months ended 30 June 2014: Nil) share options were lapsed during the six months ended 30 June 2013.

25. RELATED PARTY TRANSACTIONS

The remuneration of the Directors and other key management personnel during the six months ended 30 June 2014 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short-term benefits	2,490	2,878	4,982	5,836
Post-employment benefits	64	19	129	38
	2,554	2,897	5,111	5,874

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

26. LITIGATION

On 5 August 2013, a writ of summons (the "Writ of Summons") was issued at the High Court of Hong Kong against GDC Holdings Limited (the "Defendant"), a wholly-owned subsidiary of the Company, for specific performance or damages in lieu in relation to an agreement entered into between the plaintiff, the Defendant and the Company on 6 September 2011 (the "Agreement"). The plaintiff alleged that one of the clauses in the Agreement required the Defendant to acquire certain amount of shares of GDC Technology Limited from the plaintiff subject to the occurrence of certain events. The Defendant filed a defence ("Defence") on 22 November 2013 denying the plaintiff's allegations and asserting various affirmative defences. The amount involved in the claim is USD790,900.

The Defendant has reached an agreement with the plaintiff to settle the dispute out of court without compensation and the agreement to resolve the dispute was signed by both parties on 4 July 2014. On 11 July 2014, the High Court granted a consent order to dismiss the whole of the plaintiff's claim in this action.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Global Digital Creations Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 5 to 26, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The GEM Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statements of profit or loss and other comprehensive income for each of the three-month periods ended 30 June 2014 and 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the six months ended 30 June 2014 was HK\$102,443,000, representing an increase of approximately 21% as compared to the corresponding period in 2013 of HK\$84,594,000. The increase was mainly attributable to increases in rental and building management service fee income and revenue from contracts for computer graphic (“CG”) creation and production by HK\$15,685,000 and HK\$2,295,000, respectively.

Cost of sales for the six months ended 30 June 2014 amounted to HK\$63,071,000 representing an increase of approximately 28% as compared to the corresponding period in 2013 of HK\$49,267,000. The increase was mainly attributable to more direct operating costs incurred for our headquarters building, which started generating building management service fee income since the last quarter of 2013, and more CG costs incurred in line with increase in revenue generated from CG creation and production.

The Group recorded a gross profit of HK\$39,372,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$35,327,000), representing a gross profit margin of approximately 38%. Comparing with the gross profit margin of 42% for the six months ended 30 June 2013, the decrease was mainly due to a lower gross profit margin from the CG creation and production business segment during the period as a result of intense competition in the industry which affected the gross profit margin of the intellectual property projects.

Other income for the six months ended 30 June 2014 amounted to HK\$26,887,000 (six months ended 30 June 2013: HK\$38,681,000). Other income for the six months ended 30 June 2014 mainly included dividend income from available-for-sale investment of HK\$17,683,000 (six months ended 30 June 2013: HK\$13,823,000), government grants of HK\$5,553,000 (six months ended 30 June 2013: HK\$14,108,000) and interest income of HK\$3,458,000 (six months ended 30 June 2013: HK\$5,767,000)

Distribution costs and selling expenses for the six months ended 30 June 2014 amounted to HK\$15,092,000 (six months ended 30 June 2013: HK\$13,962,000), representing an increase of approximately 8%. The increase was mainly attributable to an increase in the advertising and marketing expenses for two (six months ended 30 June 2013: one) intellectual property projects which were launched in the PRC during the period.

Administrative expenses for the six months ended 30 June 2014 amounted to HK\$30,126,000 (six months ended 30 June 2013: HK\$32,654,000), representing a decrease of approximately 8%. The decrease is mainly attributable to decreases in legal and professional fee and staff costs during the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Finance costs for the six months ended 30 June 2014 was HK\$3,661,000 (six months ended 30 June 2013: HK\$4,676,000). The finance costs were interest on bank borrowings for the construction of the headquarters building in Shenzhen and the decrease was resulted from repayment of part of the bank borrowings during the period.

Other gains and losses for the six months ended 30 June 2014 amounts to HK\$11,009,000 of net gains (six months ended 30 June 2013: HK\$381,000). It was mainly attributable to an increase in fair value of the held-for-trading investments of HK\$10,528,000 (six months ended 30 June 2013: decrease in fair value of the held-for-trading investments of HK\$318,000).

As a whole, the Group recorded a profit of HK\$32,645,000 for the six months ended 30 June 2014 attributable to owners of the Company, when comparing with that of HK\$24,243,000 for the corresponding period in the year 2013, representing an increase of approximately 35%.

BUSINESS REVIEW AND OUTLOOK

CG creation and production

The Group's revenue from the CG creation and production division was primarily generated from the operations in the production of international projects, intellectual property projects, animated television dramas and exhibition display production. The revenue from the CG creation and production division for the six months ended 30 June 2014 amounted to HK\$77,682,000, representing an increase of HK\$8,649,000 when compared with the corresponding period in the year 2013 of HK\$69,033,000.

During the first half of the year, there were four international projects in progress with European clients, including the famous animated television drama LEGO Ninjago and the Star Wars series. Over the years, there was steady development in the production of international projects undertaken by the production team in the CG creation and production division. During the first half of the year, the technical research and development department of the CG creation and production division had put in place a number of enhancements in software and in project production process aiming to maintain our production standard at an international level.

In respect of intellectual property projects, during the first half of the year, the Group produced two animated films successively, both of which were released in over 2,900 cinemas in the PRC. The first one entitled "Super Three" was released in both 3D and 2D versions on 4 April 2014 whereas the second one entitled "Happy Little Submarine IV: Adventure of Octopus" was released in both 3D and 2D versions on 30 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production (Continued)

When compared with “Happy Little Submarine III: Rainbow Treasure”, which was released with three other domestic animated films at the same time slot in the last year in the PRC, “Happy Little Submarine IV: Adventure of Octopus” secured first place in terms of box office receipts in the PRC, even though the competition was more intense with an aggregate of seven domestic animated films released at the same time slot in the year in the PRC. The “Happy Little Submarine” series have been ranked the first among animated films in terms of box office receipts for the June 1st Children’s Day slot for three consecutive years since 2012. The sale of broadcasting rights for both films on online video platform has commenced and will generate revenue from film copyrights and grant of film derivative products licenses gradually. Furthermore, “Smart Shunliu”, an animated television drama jointly produced by the Group and the Television and Art Center under the Military and Political Bureau of Jinan province of the PRC, is still in progress.

In respect of digital animated technology exhibition and large event production’s projects, the Group continued to provide CG production services for programs of mainstream television stations in the PRC and theme parks in Shenzhen during the first half of the year. On top of that, the Group also succeeded in expanding its digital animated technology exhibition and large event production business to Doha, the capital of Qatar, as well as to the theme parks in Xi’an of the PRC.

As the core business of the Group, creativity and technological advancement of the CG creation and production division to be in line with the market trends would be crucial to the success of the Group. The Group plans to proactively nurture talents internally and upgrade the technologies in the second half of the year, aiming at creating a breakthrough in the animated film industry.

CG Training

The revenue from the CG training division for the six months ended 30 June 2014 amounted to HK\$7,376,000, representing a slight decrease of approximately 2% when compared with the corresponding period in the year 2013 of HK\$7,507,000.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Training (Continued)

Intense competition prevails in the CG training industry. At the beginning of the year, the Group integrated its existing resources and optimized its operations in Shanghai, Guangzhou and Shenzhen in the PRC in order to bring out the best of the three cities and to achieve maximum economic benefits for the team. To keep abreast with market demand, the training team designed diversified practical courses, collaborated with approximately 20 additional institutions and further deepened the collaboration between such institutions by offering joint internships into the courses and broaden the source of students in the first half of the year. In addition, the training team has completed the work on website optimization during the first quarter of 2014. The training team also held large-scale publicity campaigns in the second quarter of 2014, such as recruitment fairs for renowned enterprises in Shanghai and game art seminars in Shenzhen. Through these activities, the Group believes its brand awareness was enhanced, and through interacting with technical and human resources representatives of other famous enterprises in recruitment fairs, the training team gained a more in-depth understanding of market demands, which was beneficial to the optimization of the training program. The admission peak season will begin in the second half of the year, the CG training division will actively conduct online promotion and campus seminars to ensure the admission target of the year will be met.

Cultural Park

For the first half of 2014, there were a total of more than 40 tenants in the Cultural Park. Revenue from the Cultural Park division amounted to HK\$17,385,000 for the six months ended 30 June 2014, representing an increase of HK\$9,331,000 when compared with the corresponding period in the year 2013 of HK\$8,054,000.

The Group has set diversified business targets to increase the rental value of the Cultural Park Project through attracting tenants and reviewing tenant portfolio, leasing outdoor spaces, and holding various cultural and promotional activities. Activities that were held in the Cultural Park during the first half of the year included children drawing charity, sales and exhibitions of Chinese New Year products, automobile exhibition, World Cup events, safety education carnival for youths and the Intellectual Property Day promotion. In addition, the Group also promoted and published latest information of the activities in the Cultural Park through WeChat, and raised marketing efficiency through the mobile internet platform in order to attract customers and raise customer sentiment which resulted in the steady growth in the tenants' sales volume. On the other hand, the approval for development of Phase II of the Cultural Park is still in progress. Looking into the future, the Group plans to make regular improvements in property quality of the Cultural Park and optimize its existing tenant portfolio so as to ensure that such investment property will generate a better return.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had bank balances and cash of HK\$107,581,000 (31 December 2013: HK\$93,351,000) and structured deposits of HK\$83,911,000 (31 December 2013: HK\$185,164,000), which were mainly denominated in Renminbi, Hong Kong dollars, Euro dollars and United States dollars. The decrease in the sum of bank balances and cash and structured deposits was mainly the result of cash used in purchase of other financial assets of HK\$43,783,000 settlement of construction payable of HK\$15,018,000 and repayment of bank borrowings of HK\$17,500,000.

As at 30 June 2014, the Group's borrowings amounted to HK\$97,500,000, of which HK\$40,000,000 were repayable within twelve months from 30 June 2014 and HK\$57,500,000 were repayable after twelve months from 30 June 2014. The borrowings were denominated in Renminbi and bore interest at the People's Bank of China Renminbi Lending Rate per annum.

The Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 30 June 2014 was approximately 10% (31 December 2013: 12%). As at 30 June 2014, the Group had a current ratio of 2.3 (31 December 2013: 2.0) based on current assets of HK\$327,716,000 and current liabilities of HK\$143,061,000. The improvement in the gearing ratio was mainly attributable to repayment of part of bank loans during the period.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK\$969,509,000 as at 30 June 2014 (31 December 2013: HK\$956,129,000). The increase was attributable to profit for the six months ended 30 June 2014 attributable to owners of the Company of HK\$32,645,000, partially offset by exchange differences arising on translation of foreign operations attributable to owners of the Company of HK\$19,265,000.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment during the six months ended 30 June 2014.

CHARGE ON ASSETS

As at 30 June 2014, the Group had the following charges on the Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK\$241,681,000 were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK\$97,500,000. As at 30 June 2014, the Group had no unutilised banking facility.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi, Euro dollars and United State dollars and incurs costs mainly in Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure, and thus do not implement any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 30 June 2014, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Save as disclosed in note 26 about litigation proceedings, the Group had no significant contingent liabilities as at 30 June 2014.

EMPLOYEES

As at 30 June 2014, the Group employed 569 (31 December 2013: 535) full time employees. 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.

During the six months ended 30 June 2014, 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 individual.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014. (six months ended 30 June 2013: Nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2014.

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

As at 30 June 2014, the interests and short positions of the Directors and chief executives 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 Securities and Futures Ordinance ("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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Approximate percentage of issued share capital of the Company
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Chen Zheng	Beneficial owner	208,728,200	–	208,728,200	13.75%
Mr. Leung Shun Sang, Tony	Beneficial owner	30,008,200	–	30,008,200	1.98%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	–	10,800,820	0.71%
Prof. Japhet Sebastian Law	Beneficial owner	3,000,000	–	3,000,000	0.20%

Save as disclosed above, as at 30 June 2014, 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 the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2014 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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 Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	619,168,023 <i>(Note)</i>	40.78%

Note: Upper Nice is an indirect wholly-own subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporation are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 30 June 2014, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) 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.

SHARE OPTION SCHEME

On 18 June 2013, the share option scheme of the Company (the "Share Option Scheme") which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted since its adoption, The Share Option Scheme shall be valid and effective for a period of 10 years.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2014, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2014.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of provisions 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 six months ended 30 June 2014.

CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 17.50A (1) of the GEM Listing Rules, the change in information of Directors as follows:

Mr. Li Shaofeng was appointed as executive director of BeijingWest Industries International Limited on 17 January 2014 and was re-designated to a non-executive director of Shougang Concord Technology Holdings Limited on 17 March 2014.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30 June 2014 were unaudited. However, the Company has engaged the Company's auditor, Messrs. Deloitte Touche Tohmatsu (the "Auditor") to assist the Company's audit committee (the "Audit Committee") to review the 2014 unaudited interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2014.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our shareholders, business partners and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to all of the Directors, management and staff for their hard work and dedication throughout the period.

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 8 August 2014