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)

ANNUAL REPORT

2016

* *For identification purpose only*

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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

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

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

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent Non-executive Directors

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

EXECUTIVE COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Li Shaofeng *(Chairman)*
Mr. Leung Shun Sang, Tony *(Vice Chairman)*
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin

REMUNERATION COMMITTEE

Prof. Japhet Sebastian Law *(Chairman)*
Mr. Li Shaofeng *(Vice Chairman)*
Mr. Leung Shun Sang, Tony
Mr. Kwong Che Keung, Gordon
Mr. Lam Yiu Kin

COMPLIANCE OFFICER

Mr. Chen Zheng

COMPANY SECRETARY

Ms. Kam Man Yi, Margaret

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 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

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

Mr. Li Shaofeng, aged 50, holds a Bachelor's Degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed as an Executive Director and the Chairman, the Chairman of each of the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company in May 2010. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding") in 1989 and is currently the vice chairman and the managing director of Shougang Holding. Currently, he is an executive director and the chairman of each of Shougang Concord Century Holdings Limited ("Shougang Century"), Shougang Fushan Resources Group Limited ("Shougang Res") and Shougang Concord Grand (Group) Limited ("Shougang Grand"), a substantial shareholder 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"), the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International") and the executive director of Beijing West Industries International Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also an non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange and a director of Wheeling Holdings Limited, which is a substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Li was an executive director, non-executive director and chairman of HNA Holding Group Co., Limited (Formerly known as "HNA International Investment Holdings Limited") and a non-executive director of China Dynamics (Holdings) Limited (Formerly known as "Sinocop Resources (Holdings) Limited") in the past three years. Mr. Li has extensive experience in management and investment of listed companies, sino-foreign joint ventures and steel industry.

Mr. Chen Zheng, aged 57, 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 of the Company in February 2005 and is currently the Chief Executive Officer of the Company. He is also a member of the Executive Committee of the Company. Mr. Chen had been appointed as the managing director of operations of Shougang Grand. Mr. Chen has extensive experience in investing business and corporate management.

Mr. Jin Guo Ping, aged 58, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed as an Executive Director of the Company in February 2006 and currently is Vice President of the Company. He is also a member of the Executive Committee of the Company. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Cheng Xiaoyu, aged 50. 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 on 18 December 2014. Ms. Cheng graduated from The Graduate School of Xi'an Jiaotong University in 1988 and majored in Linguistics and Applied Linguistics, she holds a Bachelor of Arts. Ms. Cheng joined Shougang Corporation in August 1988 as an official translator. 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 International, a director of Shougang Century,a deputy managing director and an executive director of Shougang Grand, all of which are companies listed on the Stock Exchange. She currently serves as the deputy chairman and general manager of Beijing Dongzhimen International Apartment Co., Ltd.

NON-EXECUTIVE DIRECTOR

Mr. Leung Shun Sang, Tony, aged 74. Mr. Leung was appointed as a Non-executive Director of the Company in December 2005. He is also the Vice Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Leung is a non-executive director of each of Shougang Grand, Shougang International, Shougang Century, Shougang Res and HNA Holding Group Co., Ltd (Formerly known as "HNA International Investment Holdings Limited"). Mr. Leung holds a bachelor degree of commerce from the Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

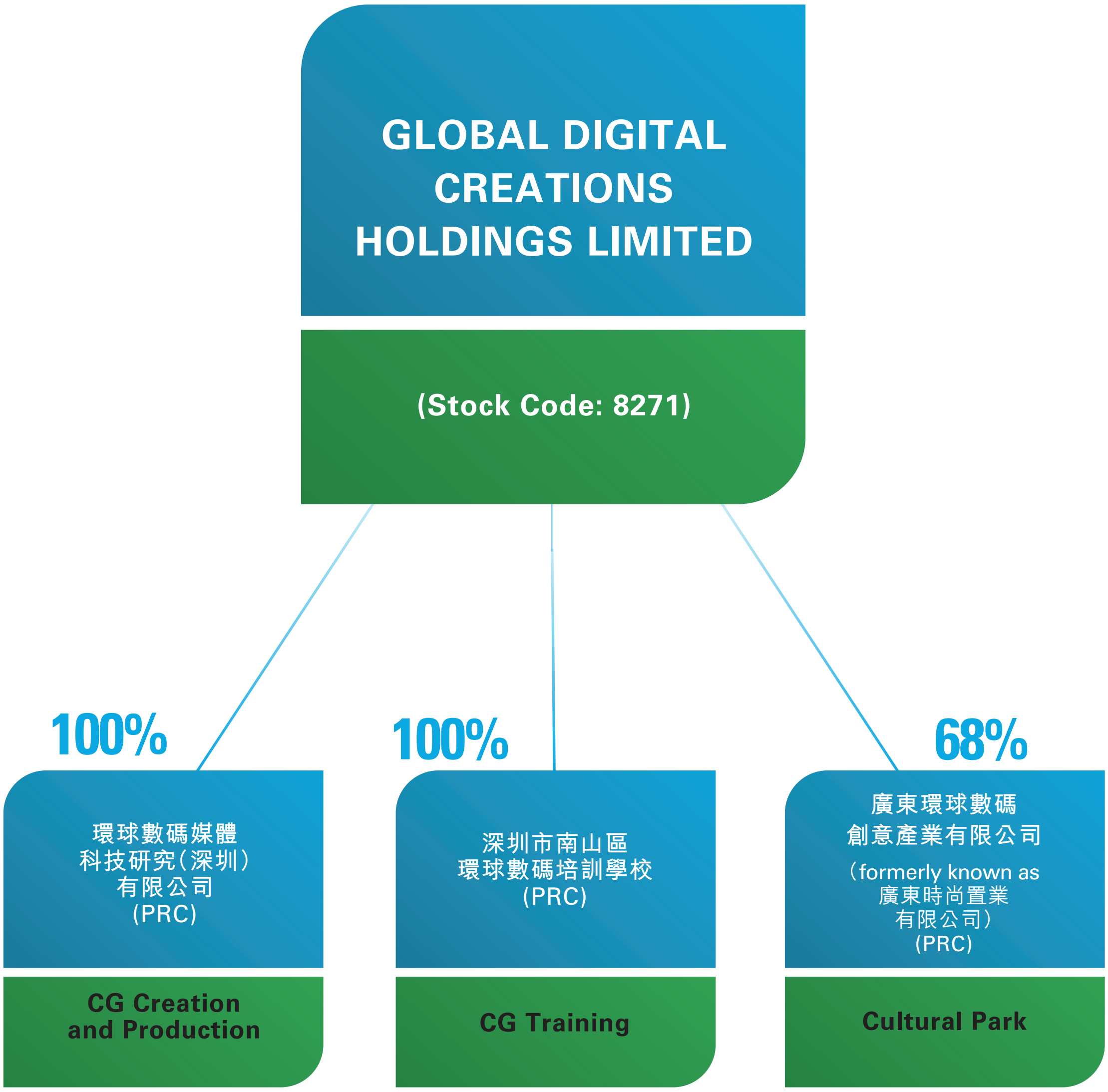
Mr. Kwong Che Keung, Gordon, aged 67. Mr. Kwong was appointed as an Independent Non-executive Director of the Company in April 2003. He is also the Chairman of the Audit Committee, a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies including NWS Holdings Limited, OP Financial Investments Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Group Holdings Limited (Formerly known as "Agile Property Holdings Limited"), CITIC Telecom International Holdings Limited, COSCO SHIPPING Holdings Co., Limited (Formerly as "China COSCO Holdings Company Limited"), Chow Tai Fook Jewellery Group Limited and FSE Engineering Holdings Limited. He was an independent non-executive director of China Chengtong Development Group 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Prof. Japhet Sebastian Law, aged 65. 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, 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 serves 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 Res, all of which are companies listed on the Stock Exchange. He was an independent non-executive director of China Finance Investment Holdings Limited (Formerly Known as "Cypress Jade Agricultural Holdings Limited") and Shanghai La Chapelle Fashion Co., Ltd. in the past three years.

Mr. Lam Yiu Kin, aged 62. 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"), a honorary fellow of The Hong Kong Polytechnic University. Mr. Lam had been 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 of Hong Kong Limited 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 (Formerly known as "COSCO Pacific Limited"), Mason Financial Holdings Limited, Nine Dragons Paper (Holdings) Limited and WWPKG Holdings Company Limited. He was an independent non-executive director of Royal Century Resources Holding Limited (Formerly known as "Kate China Holdings Limited") in the past three years.

MAIN OPERATIONAL STRUCTURE



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Global Digital Creative Holdings Limited (the "Company"), I herewith present you the annual results of 2016 of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016. For the financial year ended 31 December 2016, the Group recorded approximately HK$146,759,000 of total revenue and approximately HK$68,429,000 of gross profit, representing a decrease of 19% and 6% respectively as compared to approximately HK$181,664,000 of total revenue and approximately HK$72,864,000 of gross profit for the corresponding period of the previous year. Consolidated annual loss amounted to HK$95,294,000, whilst the consolidated profit for last year was HK$20,185,000.

In 2016, the global economy remained unstable, with the continuous slowdown of economic growth among various countries. Meanwhile, the domestic consumption of the People's Republic of China (the "PRC") slackened. According to the National Bureau of Statistics, the Gross Domestic Product (GDP) of the PRC for 2016 recorded a year-on-year (YoY) growth of 6.7%, which was slightly lower than the growth rate of the GDP of last year. The weak global market economy, the unstable Euro exchange rate and uncertainties of the presidential election of the United States all led to a hike of economic risks which directly affected the revenue of the Group's international processing business. The film market of the PRC declined in 2016 with the domestic box office receipts of approximately RMB45,700,000,000, representing only a 2.1% YoY increase; while in 2015, the box office receipts was RMB44,000,000,000 with a 48% YoY increase. The growth of the box office sales of the PRC in 2016 showed obvious diminution and there was a large discrepancy between the actual receipts and the RMB60,000,000,000 estimated by the industry at the beginning of the year. There were total 63 animated films screened this year, with total box office sales amounted to RMB7,000,000,000. Among the animated films screened, 37 films were domestic production, receiving a total of RMB1,300,000,000 box office receipts which accounted for approximately 19% of the total box office sales of animated films. There was a significant drop in the market share of the box office sales of the domestically produced animated films this year as compared with that of 36% in 2014 and 46% in 2015.

Established in 2000, the Group's animation production company in Shenzhen now creates and develops, plans, produces and distributes all kinds of 2D and 3D animated films and television dramas, as well as proactively expanding into overseas markets and promotes the export of cultural products. Meanwhile, the animations it produced have received numerous awards from the PRC's government and the industry throughout these years. In view of the currently low market share of the box office sales of domestically produced animations, the Group believes that there is indeed a lot of room for enhancement. Therefore, apart from the "Happy Little Submarine" series, the animation production company is actively engaged in the production of many new original animation projects in the past two years. One of the original animated films is expected to be screened in the PRC in 2017. Looking forward, in respect of our original work business, the Group will be able to create more animated films with greater popularity and influence, as well as raising the box office receipts and the revenue of product licensing of the CG creation and production division.

The Group's CG training business underwent an internal restructuring in early 2016, with Shenzhen as the base of the business operation. In view of intense market competition, the increase in labour cost and the slowdown in domestic economic growth, the CG training business was repositioned so that it would collaborate with the business development of the Group's animation production service in Shenzhen. The CG training business imported production talents for the animation production service while the animation production business provided technical support to teaching, so as to create synergies among the divisions.

CHAIRMAN'S STATEMENT

It was already the 5th year since the opening of the Cultural Park phase I in Guangzhou in early 2013. Over the last few years, through the continuous optimization and enhancement of the portfolio of the shops in the Cultural Park, we recorded increases in our rental revenue from both new and renewed tenants. The operations of the Cultural Park in 2016 was not affected by the litigations; the revenue of the Cultural Park remained stable, with the occupancy rate maintaining at 95% to 100%, providing the Group with a stable cash inflow. The Group has been following closely on the development in relation to the Cultural Park and the status of the Appeal, as well as seeking to negotiate further with Pearl River Film Production in the hope of reaching an agreement on the future operation plan of the Cultural Park as soon as possible.

The market expects that in 2017, the political uncertainty of the United States and Europe will increase, the sluggishness of Euro is difficult to turnaround and the exchange rate of Renminbi against the US dollar will still be under pressure to depreciate; all these factors will continue to be a burden on the PRC's economy. Despite the economic uncertainty and the weak consumer sentiment, we believe that the original animated film industry still possesses market potentials which is favorable to the Group's sustainable development of its core businesses. The Group will also continue to identify new investment opportunities and broaden income sources in order to deliver better results to the shareholders.

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

Li Shaofeng
Chairman

Hong Kong, 22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

CG creation and production

The revenue of the Group's computer graphics ("CG") creation and production business division was mainly generated from the animation production services, box office receipts and copyrights of original animated films, copyrights of animated television dramas and productions of display videos for digital animated technology exhibitions. For the year ended 31 December 2016, the revenue of CG creation and production division amounted to HK$96,454,000, representing a decrease of HK$20,216,000 or approximately 17% as compared with that of HK$116,670,000 for the year 2015.

The clients of CG creation and production division in animation production services are mainly those animation companies in Europe and North America. During the year, the division completed four international animated television drama projects, covering the areas of innovative design, computer animation production and audio production, etc. Currently, the production of one international animated television drama is still in progress. The division had more opportunities to be involved in the PRC projects this year. The division entered into a cooperation agreement with a renowned Tibetan enterprise in relation to the creative development of two animated television drama series, undertook the pre-production work of an animation film of a renowned animation and comic platform in the PRC as well as engaged in the tourism promotion of the "Blissful"* of Guangfo Metro (廣佛地鐵「幸福號」), a specially designed train with an animation and comic theme.

In respect of original work projects, revenue was mainly generated from "Smart Shunliu – Eagle Boy", an animated television drama which was well-received by the broadcast channels and the audience with positive feedback after it was first broadcasted on major cartoon satellite TV channels in the PRC in March this year. The viewership rating of the animated television drama was among the top ten when compared with those of the animated television dramas broadcasted in the same period. It was also included in the broadcast recommendation as the outstanding domestically produced animated television drama by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). The television drama was later broadcasted on online video platforms and achieved an accumulated hit rate of over 200 million times. In view of the positive responses, the division now actively engages in the production of a sequel of this drama.

Meanwhile, a new film in the same series will be launched to commemorate the 90th anniversary of the founding of the army of the PRC and to further expand its broadcasting channels and maximize its impact. "Smart Shunliu" brought about a number of awards for the division, including the "Jade Monkey Prize – Annual Top Ten New Animation IP"* (「玉猴獎年度十佳新銳動漫IP」) awarded by "2016 China IP Licensing Conference" co-organized by Guangdong Animation & Comic Industry Association, Hong Kong Animation & Comic Association and Hong Kong International Brand Licensing Association, "2016 Animated Golden Sheep Outstanding Work Supportive Scheme - the Best TV Animation"* (「2016動感金羊優秀作品扶持計劃最佳電視動畫片」), being recommended by the SAPPRFT as an outstanding domestically animated television drama in the second quarter of 2016, being selected as one of the animations in the Development & Protection of Comic & Animation 2016 of the country and the Winner of the 5th Shenzhen Copyright Golden Prize. During the year, the division actively engaged in the development and production of animated film projects. Production of three launched animation films are currently in progress; one of the original animation films of which the production started last year has already entered into the mid-late production stage and is scheduled to be screened in the second half of 2017 across the PRC. Moreover, the division has entered into the pre-production stage of the 6th film of the "Happy Little Submarine" series and is considering several animated films which are based on Chinese traditional cultural stories. In order to enhance the overall ability in original animation development, the division set up an animation studio in Beijing this year so as to strengthen the cooperation and the use of resources of animation media in the country.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production *(Continued)*

In view of the development of new technology, the division set up, with "To create extraordinary VR images" as one of its core values, the "GDC Virtual Reality (VR) Laboratory" in Shenzhen to expand the business in areas such as research and development, innovative design and video content production in VR. The division created two VR short films which were about military and ocean, respectively in the year. The two short films received excellent commendation in Shenzhen International Cultural Industry Fair (ICIF) and Guangfo Animation Exhibition. The short film "Ocean Exploration" received an outstanding award at the Golden Rooster and Hundred Flowers Film Festival – the 2nd International Micro Film Exhibition. This has boosted the confidence of the division in VR creation.

In respect of digital animated technology exhibitions and large event production projects, the revenue dropped substantially during the year, affecting the revenue of the division. It was mainly affected by the slowdown of the PRC economy which led to the significant drop in the production budget of television stations and large-scale theme parks. This affected the business of the Group's subsidiary in Beijing severely and led to a sharp decline in revenue. On the other hand, Shenzhen Global Digital Creations Technology Limited* ("Shenzhen Creations"), a subsidiary of the Group in Shenzhen, secured production tender projects in relation to three large-scale theme parks during the year. Looking forward, Shenzhen Creations will strive to work on the research and development of interactive technology so as to further enhance the quality and creativity in the field of CG production.

Looking ahead, the CG creation and production division will continue to work proactively in innovative development and animation production. The division plans to establish a creative team in Foshan. Meanwhile, it will also strive to enhance internal management and improve skills, so as to build a team with high standard of efficiency and to achieve a diversified and sustainable development.

CG Training

The revenue from the CG training division for the year ended 31 December 2016 amounted to HK$6,253,000, representing a decrease of approximately 67% as compared with that of HK$18,871,000 for the year 2015.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Training *(Continued)*

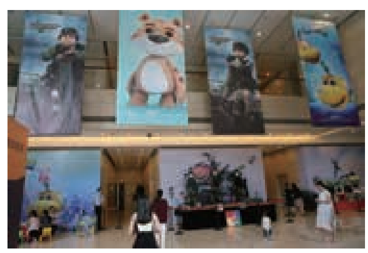
Due to the change of market situation and the impact of the game industry, the business of the CG training division recorded a loss for the last three years. Therefore, significant business adjustment was made during the year, which was the consolidation and subsequent relocation of the CG training division's business from Guangzhou and Shanghai to Shenzhen in February and April 2016 respectively. The teaching team also revised the curriculum content by introducing personnel from the CG creation and production division to teach the practical courses and lengthening the training sessions in order to focus on the nurture of more experienced technicians so as to cope with the needs of the Group's CG creation and production business. The division also recruited students to join charitable events, such as "Building the Wall of Love"* (共築愛心牆) organized by the Shenzhen Nanshan Volunteer Association, in order to nurture genuine talents for the community. Currently, most of the major competitors in the market have shifted to the game industry. Although there is still a demand for talents in the film and drama animation industry, the salary of junior personnel in the industry is relatively low and cannot match the salary standard of the game industry, resulting in difficulties and challenges in the student recruitment work. The division's loss in 2016 increased by HK$1,776,000 as compared to that in 2015; the performance of the division deteriorated by 76%. Apart from the decrease in revenue as compared with that in 2015, the significant increase in expenses incurred by the closure of the schools in Shanghai and Guangzhou was also one of the major reasons which led to the deterioration.

We expect that the CG training division will face great pressure and challenges in 2017. The division will focus on its training school in Shenzhen and continue to nurture talents proactively. Meanwhile, with the technical strength of the CG creation and production business, the division will further enrich the content of curriculum, strengthen the training and motivation of the sales team and increase the competence of the tutors and improves the quality of teaching, so as to cope with the Group's internal needs as well as the needs of the industry. The division also hopes to increase its market share, maintain stable revenue and achieve profit.

Cultural Park

The revenue from the Cultural Park division for the year ended 31 December 2016 amounted to HK$44,052,000, representing a decrease of approximately 4% as compared to that of HK$46,123,000 in 2015. The revenue was mainly generated from shop rental and building management service fee income. The slight decrease in revenue was mainly due to the impact of the tax detaching from selling price resulting from the replacement of the business tax with value-added tax ("VAT") implemented in May 2016. The division recorded a loss of HK$98,937,000 this year, mainly due to the impairment loss on investment properties resulted from litigations, the write-off of the construction deposit and the litigation fee amounted to HK$113,342,000 in total.





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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park *(Continued)*

The Pearl River Film Cultural Park is operated by the Cultural Park division. 珠江電影製片有限公司 ("Pearl River Film Production*"), as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to the division for operation for a term up to 31 December 2045. The Pearl River Film Cultural Park has a leasable floor area of approximately 15,000 square meters. Since the opening of the Pearl River Film Cultural Park in 2013, the division has successfully attracted quite a number of well-known brands to settle in. This has raised the profile of the Pearl River Film Cultural Park as well as driven the leasing business of the Pearl River Film Cultural Park, leading to a steady growth in the rental revenue. By the end of 2016, the occupancy rate of the Pearl River Film Cultural Park reached 97%. However, on 11 April 2016, the division received a notice of respondence to action (應訴通知書) (the "Notice of Respondence to Action") dated 6 April 2016 from 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) ("Guangzhou Intermediate People's Court*"). It was set out in the Notice of Respondence to Action that Pearl River Film Production has initiated litigation against 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park*"), an indirectly wholly-owned subsidiary of the Company, in respect of an alleged breach of the provisions of 珠影文化產業園－改造建設合作框架協議 (The Framework Agreement of the Reconstruction of the Pearl River Film Park*) (the "Framework Agreement and its Supplemental Agreements"). The Framework Agreement and its Supplemental Agreements have been declared terminated by Guangzhou Intermediate People's Court in the late October 2016. Subsequently, Guangdong Cultural Park commenced negotiation with Pearl River Film Production regarding the rights and obligations of both parties in connection with Pearl River Film Cultural Park phase I and the commercial terms of a proposed new framework agreement. Guangdong Cultural Park continues to strive to reach an agreement with Pearl River Film Production, whilst the Pearl River Film Cultural Park is currently still operated by the division. Meanwhile, Guangdong Cultural Park has also lodged an appeal (the "Appeal") with the Guangzhou Intermediate People's Court in November 2016, urging for an order that the civil judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs. The Appeal application has been accepted by the Higher People's Court of Guangdong Province of the PRC on 9 February 2017 and the hearing date on the Appeal has been fixed on 30 March 2017. In the event that the Appeal is unsuccessful, and/or the terms of the New Framework Agreement concluded are not in favour of the division, such as the rental payable to Pearl River Film Production increases significantly and/or the term of the New Framework Agreement is shortened significantly, there will be a material adverse impact on the fair value of the Pearl River Film Cultural Park phase I as recorded in the consolidated financial statements of the Group.

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded a loss attributable to owners of the Company of HK$62,158,000 while for the corresponding period in 2015, the Group recorded a profit attributable to owners of the Company of HK$10,994,000.

Revenue and Gross Profit

Revenue for the year ended 31 December 2016 amounted to HK$146,759,000 (2015: HK$181,664,000). The decrease was mainly attributable to a decrease of HK$20,360,000 and HK$12,618,000 in revenue from contracts for computer graphics ("CG") creation and production and income from CG training respectively. The decrease in revenue from contracts for CG creation and production was mainly due to the decreases in box office revenue and revenue from digital animated technology exhibitions and large event production attributable to the PRC's economic slowdown. For the year ended 31 December 2015, the CG creation and production division completed and released one animation film, while no film was released during the corresponding period in 2016, leading to a decrease of HK$14,464,000 in the box office revenue of the CG creation and production division when compared with the corresponding period in 2015. The decrease in revenue from CG training was primarily due to the consolidation of the CG training division in the first half of 2016.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

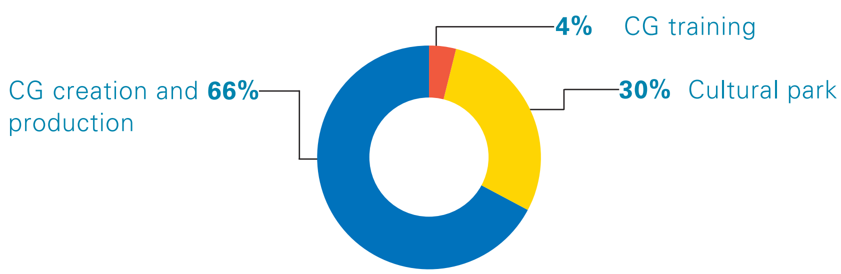
Revenue and Gross Profit *(Continued)*

Cost of sales for the year ended 31 December 2016 amounted to HK$78,330,000, representing a decrease of approximately 28% when compared with that of HK$108,800,000 in the corresponding period in 2015. The decrease was mainly attributable to the fact that the direct cost of an animation film released last year was recognized for the period, while no such cost was recognized for the corresponding period of this year. In addition, the production cost of contracts for CG creation and production also decreased due to the sharp decline in business of digital animated technology exhibitions and large event production.

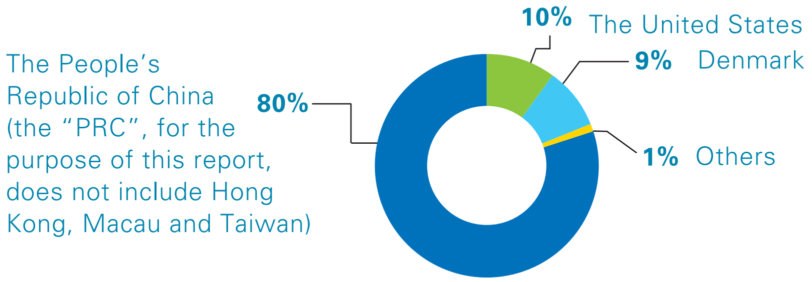
Other Income

Other income for the year ended 31 December 2016 amounted to HK$22,580,000 (2015: HK$9,908,000). Other income comprised mainly government grants of HK$17,606,000 (2015: HK$4,927,000) and interest income of HK$4,859,000 (2015: HK$4,709,000).

REVENUE BY PRINCIPAL ACTIVITY FOR 2016



REVENUE BY GEOGRAPHICAL LOCATION FOR 2016



Distribution Costs and Selling Expenses

Distribution costs and selling expenses for the year ended 31 December 2016 amounted to HK$3,812,000 (2015: HK$15,329,000), representing a decrease of approximately 75%. The decrease was mainly attributable to the fact that no film was released during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Administrative Expenses

Administrative expenses for the year ended 31 December 2016 amounted to HK$65,284,000 (2015: HK$57,589,000), which represented an increase of approximately 13%. The increase was primarily due to the litigation costs of Guangdong Cultural Park (廣東文化產業園) incurred in 2016 and the rental cost of Phase II of the Pearl River Film Cultural Park for the year. As of the date of this report, Guangdong Cultural Park and Pearl River Film Production has not yet reached a final consensus in relation to the future collaboration arrangement of Pearl River Film Cultural Park. Therefore, the Group adopts a prudent approach by making full provision for the rental cost of 2016 in accordance with the rental fee set out in the original Framework Agreement in which, the rental cost allocated to Phase I was recognized in the cost of sales while the rental cost of approximately HK$10,294,000 allocated to Phase II was recognized in the administrative expenses.

Impairment Loss on Investment Properties

An impairment loss on investment properties was made in connection with the interest of the properties under construction of the Pearl River Film Cultural Park. As disclosed in the note 42(a) to the consolidated financial statements, Guangzhou Intermediate People's Court (廣州市中級人民法院) declared that the Framework Agreement and its Supplemental Agreements were terminated on 22 March 2016. According to the opinion of our PRC legal advisor, after the termination of the Framework Agreement and its Supplemental Agreements, both parties ceased to have all the rights and obligations thereunder. Accordingly, the Group recorded the impairment loss in respect of the interest of the properties under construction of the Pearl River Film Cultural Park in 2016. Meanwhile, as at 31 December 2016 and 2015, the fair values in Renminbi of the completed Pearl River Film Cultural Park Phase I remained unchanged.

Finance Costs

There were no finance costs incurred for the year ended 31 December 2016 (2015: HK$2,559,000). All bank loans were repaid in advance in July 2015.

Other Gains and Losses

Other gains and losses for the year ended 31 December 2016 was HK$27,138,000 of net losses (2015: HK$21,945,000 of net gains). The decrease in net gains was mainly attributable to 1) the recognition of the profit from the disposal of available-for-sale investments of HK$20,789,000 arising from the completion of the first disposal of shares of GDC Technology Limited for the year ended 31 December 2015, while no such gain was recognized in the corresponding period in 2016; and 2) the write-off of the construction deposit of HK$23,310,000 and the late payment surcharges for the overdue rental as a result of the judgment given by Guangzhou Intermediate People's Court (Please refer to the note 42(a) to the consolidated financial statements).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had bank balances and cash of HK$274,528,000 (2015: HK$137,317,000), which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars, restricted bank deposits of HK$17,797,000 (2015: HK$Nil) and structured deposits of HK$19,007,000 (2015: HK$147,618,000).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 31 December 2016 and 31 December 2015, the Group had no borrowings or overdrafts. The Group's current ratio was 3.2 (31 December 2015: 3.7), which was calculated based on current assets of HK$365,802,000 and current liabilities of HK$113,052,000.

For the year ended 31 December 2016, the Group's cash inflow from operating activities was HK$32,987,000 (2015: HK$46,573,000). The Board considers that the Group has adequate existing financial resources to meet its commitments and current working capital requirements.

CAPITAL STRUCTURE

The equity attributable to the owners of the Company amounted to HK$827,067,000 as at 31 December 2016 (2015: HK$943,834,000). The decrease was mainly attributable to exchange differences of HK$53,101,000 arising from the translation of financial statements attributable to owners of the Company from functional currency to presentation currency and the loss attributable to owners of the Company of HK$62,158,000 for the year ended 31 December 2016.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment during the year ended 31 December 2016.

CHARGE ON ASSETS

As at 31 December 2016, the Group had 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 United States 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 exposure. As at 31 December 2016, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITY

Save as disclosed in note 42 to the consolidated financial statement about litigation proceedings, the Group had no significant contingent liabilities as at 31 December 2016.

EMPLOYEES

As at 31 December 2016, the Group employed 398 (2015: 453) full time employees (excluding employees from 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 2016, 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.

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 Corporate Governance Code (the "CG Code") set out in Appendix 15 of to Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2016, except for a deviation from the Code Provision A.6.7 of the CG Code.

Under the Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders. Prof. Japhet Sebastian Law, an Independent non-executive Director, was not able to attend the annual general meeting of the Company held on 29 June 2016 due to other commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors" and each a "Director") 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 enquiry to 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 2016.

BOARD OF DIRECTORS

Composition

As at 31 December 2016, the board of Directors of the Company (the "Board") comprises eight members including four Executive Directors, Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping and Ms. Cheng Xiaoyu; one Non-executive Director, Mr. Leung Shun Sang, Tony 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 Mr. Li Shaofeng 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)*

- 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 function

The Board is responsible for overall strategy formulation, oversee 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 also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this annual 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 other means of electronic 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 agenda. 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 prepared in such form and quality 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 meeting's 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 committee, drafts and final versions of which would be sent to the Directors for their comments and records. Minutes are recorded in sufficient detail relating to the matters considered by the Board 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 (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

The Board held six Board meetings during the year ended 31 December 2016. The Directors had made active contribution to the affairs of the Group and six 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 2016 are set out below:

	Board meeting	**General meeting**
Name of Directors	**Number of meetings attended/ Number of meetings eligible to attend**	
Executive Directors		
Mr. Li Shaofeng *(Chairman)*	6/6	1/1
Mr. Chen Zheng	6/6	1/1
Mr. Jin Guo Ping	6/6	1/1
Ms. Cheng Xiaoyu	5/6	0/1
Non-executive Director		
Mr. Leung Shun Sang, Tony	5/6	1/1
Independent Non-executive Directors		
Mr. Kwong Che Keung, Gordon	5/6	1/1
Prof. Japhet Sebastian Law	4/6	0/1
Mr. Lam Yiu Kin	6/6	1/1

The meetings above were not attended by any alternate Director.

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 them 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.

Appointments 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-nomination and retirement of Directors.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Appointments 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 general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

The term of the appointment of Non-executive Director and Independent Non-executive Directors is for a period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

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

Board Diversity Policy

The Board adopted a 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 business. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

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 2016 to 31 December 2016. 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	
Mr. Li Shaofeng *(Chairman)*	✓
Mr. Chen Zheng	✓
Mr. Jin Guo Ping	✓
Ms. Cheng Xiaoyu	✓
Non-executive Director	
Mr. Leung Shun Sang, Tony	✓
Independent Non-executive Directors	
Mr. Kwong Che Keung, Gordon	✓
Prof. Japhet Sebastian Law	✓
Mr. Lam Yiu Kin	✓

CORPORATE GOVERNANCE REPORT

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 CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Li Shaofeng acts as the Chairman and Mr. Chen Zheng serves as the Chief Executive Officer of the Company. 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.

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

The Non-executive Director provides a wide range of expertise and experience as well as checks and balances to safeguard the interests of the Group and its shareholders. The Non-executive Director of the Company has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2017 and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rules 5.05(1) and 5.05(2) 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 2016 pursuant to Rule 5.09 of the GEM Listing Rules and based on the contents of such confirmations, the Company considers all Independent Non-executive Directors to be independent during the year.

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 of the Company. During the year ended 31 December 2016, the Executive Committee consists of four executive Directors namely, Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping and Ms. Cheng Xiaoyu. It is chaired by Mr. Li Shaofeng.

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, among other things:

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

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain external legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees 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. The Committee 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 five meetings during the year ended 31 December 2016 with the management and the Company's internal audit manager. Three meetings were held with the external auditor for the purpose of amongs others, reviewing:

- the Group's internal control system and risk management;
- the final results of the Group for the financial year ended 31 December 2015;
- the quarterly results of the Group for the three months ended 31 March 2016;
- the interim results of the Group for the six months ended 30 June 2016; and
- the quarterly results of the Group for the nine months ended 30 September 2016.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Audit Committee *(Continued)*

The attendance records of the Audit Committee held in 2016 are set out below:

Name of Directors	Attended/Eligible to attend
Mr. Kwong Che Keung, Gordon *(Chairman)*	5/5
Prof. Japhet Sebastian Law	3/5
Mr. Lam Yiu Kin	5/5

The meetings above were not attended by any alternate Director.

For the year ended 31 December 2016, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

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 clearly its authorities and duties. The terms of reference of the Nomination Committee are available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying and recommending to the Board suitable and qualified individuals;
- making recommendations to the Board on relevant matters relating to 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 tendered to the Board for approval.

The nomination committee will also take into account the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

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

The Nomination Committee consists of five Directors, namely, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin. It is chaired by Mr. Li Shaofeng. The Independent Non-executive Directors constitute the majority of the committee.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Nomination Committee *(Continued)*

For the year ended 31 December 2016, the Nomination Committee held one meeting for the purpose of reviewing the structure of the Board.

The attendance record of the Nomination Committee meeting held in 2016 are set out below:

Name of Directors	Attended/ Eligible to attend
Mr. Li Shaofeng *(Chairman)*	1/1
Mr. Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Mr. Kwong Che Keung, Gordon	1/1
Prof. Japhet Sebastian Law	1/1
Mr. Lam Yiu Kin	1/1

The meeting above was not attended by any alternate Director.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established in July 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on the Stock Exchange's website (www.hkexnews.hk) 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 of 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 determining 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 within its scope of duties and the authority to obtain external independent professional advice if it considers necessary.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Remuneration Committee *(Continued)*

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.

The Remuneration Committee consists of five Directors namely, Prof. Japhet Sebastian Law, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony, 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 Remuneration Committee.

For the year ended 31 December 2016, the Remuneration Committee had held one meeting for, amongst others:

- reviewing the remuneration and terms of service contracts of the Executive Directors;
- determining the bonuses of the Executive Directors for 2016 and the salaries of the Executive Directors for 2017; and
- making recommendations to the Board on fees for the Non-executive Director and Independent Non-executive Directors for 2017.

The attendance record of the Remuneration Committee meeting held in 2016 are set out below:

Name of Directors	Attended/ Eligible to attend
Prof. Japhet Sebastian Law *(Chairman)*	1/1
Mr. Li Shaofeng *(Vice Chairman)*	1/1
Mr. Leung Shun Sang, Tony	1/1
Mr. Kwong Che Keung, Gordon	1/1
Mr. Lam Yiu Kin	1/1

The meeting above was not attended by any alternate Director.

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 is responsible for advising the Board on 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 responsibility 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 "INDEPENDENT AUDITOR'S REPORT" on pages 52 to 54 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.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

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.

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 "Code of Authorization" 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 2016, 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 has submitted representation letters to the Chief Executive Officer, in which they made representations as to compliance by themselves and their subordinates of key internal control systems for 2016. In turn, the Chief Executive Officer has submitted the representation letter for the Group to the Board of Directors. The requirement for making representation letters by the management can strengthen individual responsibility for corporate governance and controls.

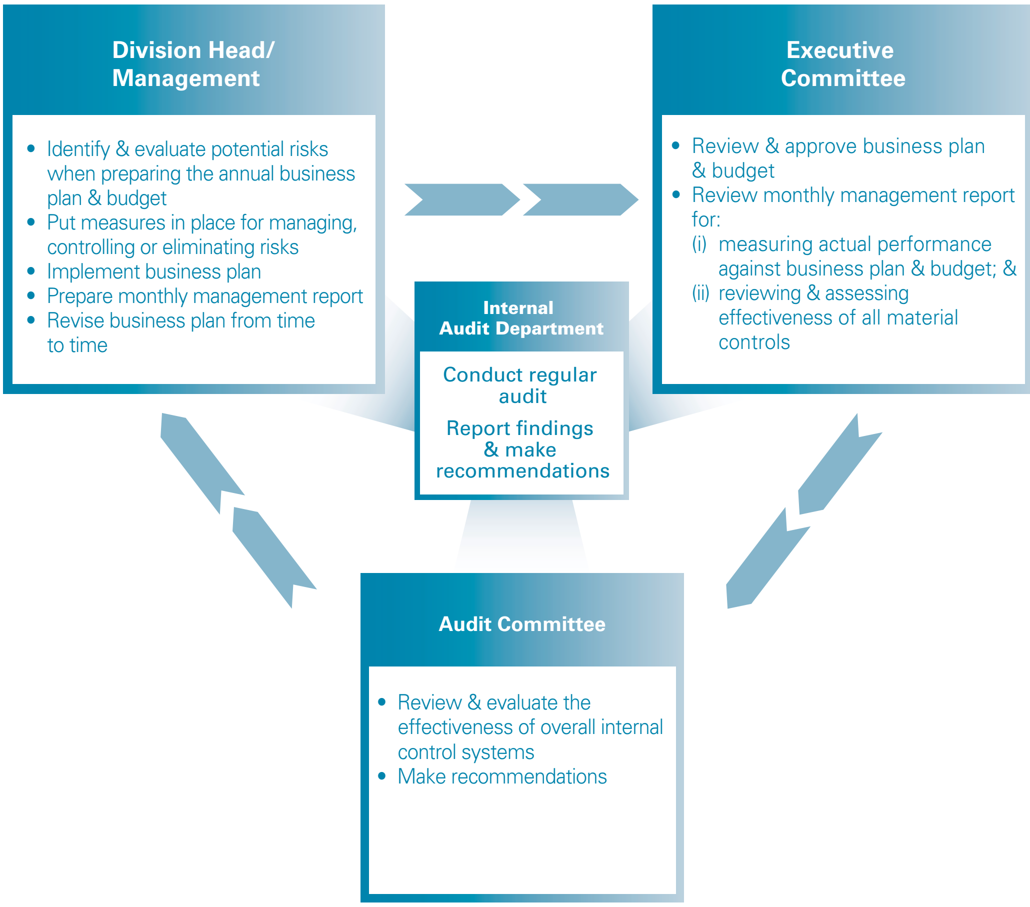
To comply with the Code Provision C.2.2 of the CG Code, the Board also included a review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, their training programmes and budget in its annual review for 2016.

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.

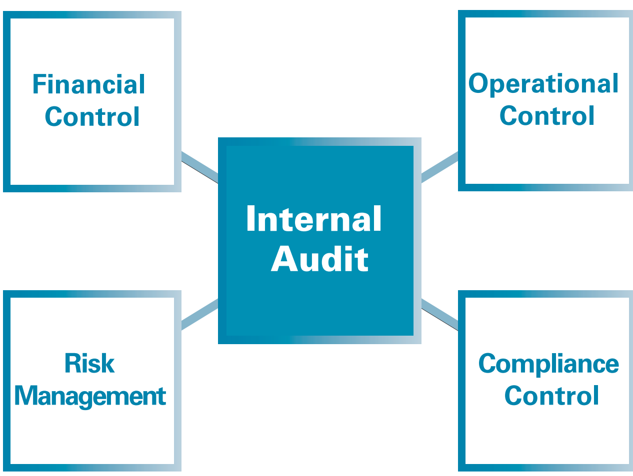
CORPORATE GOVERNANCE REPORT

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 to identifying and managing risks across the organization to evaluate risk impact and likelihood of occurrence. Risk managing workshops are conducted in each operating units 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) Risk are identified at the entity, activity and process level by using various techniques.

(3) Risk is 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 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 2016 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 risk. 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 keep having dialogue with the contracted party while making appeal to achieve the best operation conditions for the phase completed of the cultural park.
The operation of a property which is partly for self-occupancy and partly for lease is found to be not fully complied with the requirements of the local administrative authorities.	We maintain communications with the local administrative authorities with high degree of transparency and operate our property by following the practice that the majority of the local property owners adopt.
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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT *(Continued)*

Key Risks of the Group *(Continued)*

Risk	Corresponding Strategy
Construction safety.	We purchase property-related and work-related injuries and accidents insurance. Final responsibilities of safety fall on main contractor as required by the construction contracts. The main contractor has to take the responsibilities of safety incidents of sub-contractors. We formulate emergency plans for occupational safety and health, and conduct seminars to educate workers about occupational safety and health on regular basis.
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.

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, 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	1,275
Non-statutory audit services:	
Review on interim financial report	285
	1,560

COMMUNICATION WITH SHAREHOLDERS

To foster effective communication with 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 at www.gdc-world.com.

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 of the Company. All Directors will make an effort to attend. The Company's external auditor, where appropriate, is available to answer shareholders' queries at the meetings.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS RIGHTS

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 poll results will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

The detailed procedures for demanding and conducting a poll will be explained by the Chairman at general meetings.

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, and all resolutions put to the vote of a general meeting were by way of a poll.

Convening Extraordinary General Meeting and putting Forward Proposals at General Meeting

Pursuant to the Bye-laws, any one or more Shareholder 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 proposing 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 in the Corporate Governance Section of the Company's website.

Constitutional documents

There was no change to the Bye-laws during the financial year ended 31 December 2016. A copy of the latest consolidated version of the Bye-laws has been published on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors" and each the "Director") herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

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 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 55 to 124 of this annual report.

The board of Directors of the Company (the "Board") does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 are set out in the sections headed "CHAIRMAN'S STATEMENT" and "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 8 to 9, and pages 10 to 16 respectively of this annual report. The discussion forms part of this director's report.

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 125 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.

Particulars of properties of the Group as at the end of the reporting period are set out on page 126 of this annual report.

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 126 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 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 58 to 59 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were as follows:

Mr. Li Shaofeng
Mr. Chen Zheng
Mr. Jin Guo Ping
Ms. Cheng Xiaoyu
Mr. Leung Shun Sang, Tony#
Mr. Kwong Che Keung, Gordon*
Prof. Japhet Sebastian Law*
Mr. Lam Yiu Kin*

Non-executive Director
* *Independent Non-executive Director*

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

Pursuant to the code provision as set out in code provision A.4.3 of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules, serving more than nine years could be relevant to the determination of a non-executive director's independence. Any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders. Prof. Japhet Sebastian Law has been an independent non-executive director of the Company for the ninth year this year. Separate resolution will be proposed for his re-election and re-appointment at the Annual General Meeting.

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 "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 4 to 6 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Shaofeng has entered into a service contract with a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2016 unless terminated by at least three months' notice in writing served by either party prior to the expiry of the term. Each of Mr. Chen Zheng, Mr. Jin Guo Ping and Ms. Cheng Xiaoyu has entered into a service contract with the Company for a term of three years commencing on 1 January 2017. Unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

Each of Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Prof. Japhet Sebastian Law has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2017, Mr. Lam Yiu Kin has entered into an engagement letter with the Company from 27 July 2015 to 31 December 2017, unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS *(Continued)*

No Director proposed for re-election at the forthcoming annual general meeting 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 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 the section headed "SHARE OPTION SCHEME" of this annual report 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 2016, 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 Securities and Futures Ordinance (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

		Numbers 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 issued share capital of the Company**
Mr. Chen Zheng	Beneficial owner	185,988,200	–	185,988,200	12.25%
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%

Save as disclosed above, as at 31 December 2016, none of the Directors, chief executive 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 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S 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 2016, 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" described below, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

As permitted by the bye-law of the Company, 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 director's and officer's liability insurance coverage for the directors and officers of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons or corporations, other than the Directors or chief executive 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 Position 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 *(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 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. 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 2016, 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.

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 of the Company 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 shall be 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% and 10% of the Company's issued share capital as at 18 June 2013, being the date of adoption of the 2013 Share Option Scheme by the shareholders of the Company and the date of this annual report, respectively. Unless approved by shareholders of the Company, the total number of shares to be issued upon exercise of the share options granted to each Eligible Persons (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the 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$1.00 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 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 Share Option Scheme. As at the date of this annual report, the remaining life of the Share Option Scheme is approximately 6 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 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution amounted to approximately HK$731,267,000.

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 trademark. 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 GUANGDONG CULTURAL PARK LITIGATION

On 11 April 2016, 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park*") an indirectly non-wholly-owned subsidiary of the Company received a notice of respondence to action (the "Notice of Respondence to Action") dated 6 April 2016 from 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) ("Guangzhou Intermediate People's Court"). It was set out in the Notice of Respondence to Action that Pearl River Film Production Limited* ("Pearl River Film Production*") has initiated litigation against Guangdong Cultural Park in respect of an alleged breach of the provisions of the Framework Agreement and its supplemental agreements of the Reconstruction of the Pearl River Film Park (the "Framework Agreement and its Supplementary Agreements"). The Framework Agreement and its Supplemental Agreements have been declared terminated by Guangzhou Intermediate People's Court in the late October 2016.

Subsequently, Guangdong Cultural Park commenced negotiation with Pearl River Film Production regarding the rights and obligations of both parties in connection with Pearl River Film Cultural Park phase I and the commercial terms of a proposed new framework agreement. Guangdong Cultural Park continues to strive to reach an agreement with Pearl River Film Production, whilst the Pearl River Film Cultural Park is currently still operated by the division. Meanwhile, Guangdong Cultural Park has also lodged an appeal (the "Appeal") with the Guangzhou Intermediate People's Court in November 2016, urging for an order that the civil judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs. The Appeal application has been accepted on 9 February 2017 by the Higher People's Court of Guangdong Province of the PRC and the hearing date on the Appeal has been fixed on 30 March 2017.

Details of the Guangdong Cultural Park litigation are set out in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS – Business review and outlook – Cultural Park" on pages 12 to 13 and note 42(a) to the notes to the consolidated financial statement on pages 121 to 122 in this annual report.

* *For identification purpose only*

REPORT OF THE DIRECTORS

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 2016.

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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 28% of the revenue for the year and the largest customer included therein amounted to approximately 10%. Purchases from the Group's five largest suppliers accounted for approximately 5% 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, own more than 5% of the Company's 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 service vendors.

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 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.

REPORT OF THE DIRECTORS

RELATION WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS *(Continued)*

Customers *(Continued)*

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 service 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.

IMPORTANT EVENTS SINCE THE YEAR END

No important event occurred for the Group since the year ended 31 December 2016.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2016.

AUDITOR

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

By Order of the Board

Li Shaofeng
Chairman

Hong Kong, 22 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

FOREWORD

The Company is one of the a leading integrated innovative cultural creative companies in the industry. Adhering to our sustainable development philosophy and operating principles, we establish good environmental, social and corporate governance policies, endeavor 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 2016, and it covers the offices operations of the headquarters of the Group and its subsidiaries and property management division. The Group mainly adopts the reporting principles and basis set out in the "Environmental, Social and Governance Reporting Guide" in Appendix 20 to the GEM Listing Rules.

ENVIRONMENT 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 environment 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 and 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 policy covers guidelines on usage of resources and energy, and disposal and recycling of waste. In 2016, the Group was not aware of any material non-compliance with environmental regulations and laws.

REDUCING 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 committed to promote the reduction of electricity, paper and water consumption during its regular operation, to create a low-carbon workplace. The Group also strives 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. Through the "Green Planting Campaign", number of plants was increased, "Green Knowledge" bulletin boards were set up in our offices, green procurement was implemented and 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCING POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED *(Continued)*

Energy-saving measures

In 2016, the following energy-saving measures were adopted in the Group's ongoing operations.

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 in the Shenzhen Building to save energy. Moreover, turn-on hours of decorative lights of the Shenzhen Building were adjusted while operating hours of landscaped pool were shortened substantially to further reduce consumption of electricity.

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 system 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. Employees were encouraged to make good use of conference calls 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 advocates sending e-bills and e-notices to its tenants and students to save papers. By implementing electronic filing and e-approval instead of in paper form, applying double-sided printing and paper recycling, and adopting e-communication, the Group has efficiently reduced the use of papers and stationeries and 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.

Reviewing 2016, the figures below cover the area of offices in Hong Kong, the Shenzhen Building and the Cultural Park.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCING POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED *(Continued)*

Pollutants	2016 *g*
Vehicle teams of the Group	
Nitrogen oxides	8,954.74
Sulfur dioxide	160.98
Particulates	659.32

Greenhouse Gases Emissions	2016 *tonnes*
Direct emission (Area 1)	
Vehicle teams of the Group	29.65
Refrigerants	276.00
Indirect emission (Area 2)	
Electricity	2,548.06
Indirect emission (Area 3)	
Paper consumption	31.11
Business travel	104.79
Total greenhouse gases emission saved from recycling papers	(4.99)
Total emission of greenhouse gases	2,984.62
Total emission of greenhouse gases per square metre of floor area *(tonne/m^2)*	0.33

Energy Consumption	2016
Direct energy consumption – Gasoline *(litre)*	10,950.70
Direct energy consumption per Employee – Gasoline *(litre)*	27.51
Indirect energy consumption – Electricity *(KWh)*	2,778,203.00
Indirect energy consumption per Empoloyee – Electricity *(KWh)*	6,980.41

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCING POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED *(Continued)*

Waste Management

In 2016, the Group has implemented 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. Electronic filing has been encouraged so as to reduce the consumption of papers and toners and thus reduce waste. During the year, the Group recycled approximately 980kg of papers, achieving a success in the reduction of carbon emission.

During the year, the Group has not used any packaging materials for its finished goods and has not produced any harmful waste.

	2016		
Waste	**Headquarters of the Group** *tonnes*	**The Shenzhen Building** *tonnes*	**The Cultural Park** *tonnes*
Non-hazardous waste			
Domestic waste	1.00	6.25	1.00
General office waste	0.10	0.25	0.10
Papers	0.11	0.38	0.50
Plastic	0.01	0.03	0
Wooden board	0	0.06	0
Glass	0	0.03	0
Total waste disposed to landfill per square metre of floor area *(tonne/m^2)*			0.024

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCING 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 implementing the above-mentioned water usage efficiency enhancement programme, the water consumption in 2016 decreased by 494 litre as compared to that in 2015.

Water Consumption	**2016**
Total amount of water used* *(m^3)*	11,187.00
Amount of water used per square metre *(m^3/m^2)*	1.30

Note: *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.

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. In addition, the Group takes seriously the health and welfare of its employees, and thus 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

During open recruitment, the Group strictly complies with relevant laws and regulations of 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. During the year, the Group was not aware of any material non-compliance with relevant labour laws and regulations, including hiring child labour or forced labour.

As at 31 December 2016, the Group has 398 employees.

Gender and Age Distribution by Position in 2016

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
Manager or above	35	25	10	2	29	4
General staff	363	210	153	201	155	7

Employee Turnover in 2016

	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
New employees	90	56	114	32	0
Employee turnover	94	46	93	47	0

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. For example, occupational safety and health was our major concern when we renovated our new headquarter located in Hong Kong in 2015. We hired professionals to test air quality before occupation, to ensure a safe working environment for the employees. In addition, 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 2016, the Group was not aware of any material non-compliance of standards, rules and regulations related to occupational health and safety.

In 2016, 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 in the offices.
- Providing training courses for security guards to enhance their awareness of self safety, and providing them with torches, alarms and other safety equipments.
- Arranging regular overhauls for vehicles of the Company to ensure their proper functioning so as to safeguard the safety of drivers.

Occupational Injury Data in 2016

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

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 organised leisure and exercise activities for its employees. 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. In addition, the Group also provides fitness and recreational facilities to allow its staff to lay down their jobs when necessary and take a break to "recharge" themselves before getting back to work.

During the year, employees of the Hong Kong headquarters of the Group participated in a Ba Duan Jin exercise event ("千人集體八段錦健康操"), which was organised by other organizations and joined by over a thousand people, in order to improve their physical fitness. The Group also sent its staff to join the "Enterprises Sports Day"* ("企業運動會") held by other organizations so as to encourage the employees to exercise more and strengthen the collaborations among themselves.

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 organised 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 2016, the Group had organized approximately 10 training courses, including a technology exchange meeting on special effects under series of technical exchange sharing sessions organised by our CG creation and production division, with approximately 40 employees participated in the sharing sessions.

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 saves time and money in identifying suppliers and 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 the supplier.

In 2016, the Group had a total of 62 key suppliers. During the year, the Group was not aware that any key suppliers had any significant negative impact on business ethic, environmental protection, human rights and labour practices.

* *For identification purpose only*

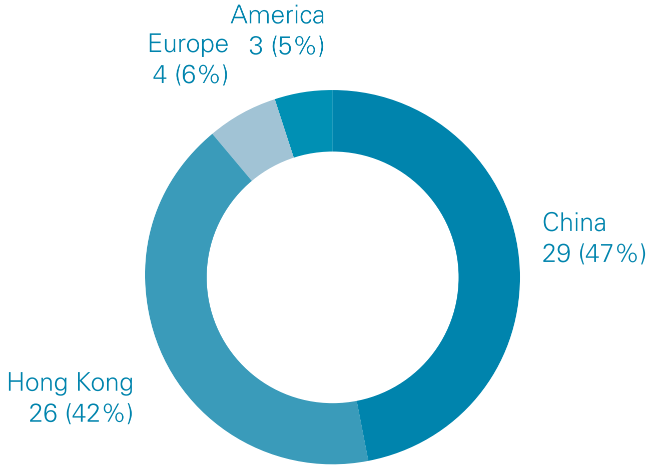
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2016, the Group was not aware of any material non-compliance with relevant laws and regulations relating to its products.

GEOGRAPHICAL DISTRIBUTION OF KEY SUPPLIERS



The Group's property management business 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 2016, 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 data by employees, so as to further protect the personal data of the stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 Law" of 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 internal audit manager or the Audit Committee of the Group 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 procedures and report the findings to the Chief Executive Officer 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 2016, the Group did not identify any significant risks associated with bribery and corruption.

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 arts.

In the past, the Group has donated computers through the Guangdong Provincial Education Foundation to poverty-stricken primary schools in Heyuan, Guangdong province and to Dongxin Primary School in Fengjiang town, Jiexi county, Guangdong province, and constructed green and caring computer classrooms, which improved the conditions of the local schools and facilitated the popularisation of culture and technology for local poverty-stricken students. In addition, the Group has also collaborated with institutions to assist in used clothing recycling, donating those used clothing to villagers living in mountain areas.

Our Group also encourages our employees to participate in all kinds of public welfare affairs and make contributions to the community. In 2016, employees from our Hong Kong headquarters participated in activities such as blood donation and charity walk, to help those in need in society.

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)

DISCLAIMER OF OPINION

We were engaged to audit 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 55 to 124, which comprise the consolidated statement of financial position as at 31 December 2016, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 16 to the consolidated financial statements, according to the framework agreement, the Group has completed properties representing Phase I of 珠影文化產業園 (the "Pearl River Film Cultural Park") which amounted to HK$409,263,000 as at 31 December 2016 and has properties interest under construction to redevelop Phase II of the Pearl River Film Cultural Park in respect of which the original period during which construction was to be completed in accordance with the framework agreement governing the lease of the related land has expired.

As further disclosed in note 42(a) to the consolidated financial statements, 珠江電影製片有限公司 ("Pearl River Film Production") as the plaintiff (the "Plaintiff") has 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 related land (the "Alleged Breach"). The Plaintiff has claimed for compensation of damages in the form of economic loss resulting from the Alleged Breach and also demanded to terminate the framework agreement. Guangdong Cultural Park has also filed a counterclaim against the Plaintiff to demand the Plaintiff to continue executing the framework agreement and compensate Guangdong Cultural Park's damages in the form of economic loss.

INDEPENDENT AUDITOR'S REPORT

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 "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 approximately RMB2,722,000 (equivalent to approximately 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 approximately 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.

In November 2016, Guangdong Cultural Park lodged an appeal with 中國廣東省廣州市中級人民法院 requesting for an order that the Civil Judgment be set aside and that the judgment be entered in favour of Guangdong Cultural Park with costs (the "Appeal").

During the year ended 31 December 2016, in light of the Civil Judgment, the Group recognised an impairment loss on properties interest under construction and wrote off the construction deposit in respect of the Pearl River Film Cultural Park which amounted to approximately HK$84,467,000 and HK$23,310,000, respectively. Guangdong Cultural Park continues to operate the completed properties. Therefore, for the completed properties and its related rental business representing Phase I of the Pearl River Film Cultural Park, the Group has continued to account for these assets as investment properties which are stated at their fair value of approximately HK$409,263,000 as at 31 December 2016 and record the rentals receivable from lessees as the Group's revenue of approximately HK$44,052,000 for the year then ended, 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 will remain unchanged and the terms and conditions of the framework agreement governing Phase I of the Pearl River Film Cultural Park will continue to be enforceable.

As of the date of our audit report, the Appeal is still in progress and no conclusion has been reached. Depending on the ultimate outcome of the Appeal, there may be significant impacts on multiple elements of the Group's consolidated financial statements. Amongst other impacts, the Group might be required to derecognise the investment properties, derecognise rental income already reflected as revenue and make provisions for compensation in respect of damages and other costs. However, the ultimate outcome of the Appeal cannot be assessed at this stage. In view of the significant uncertainty relating to the ultimate outcome of the Appeal and its pervasive impact on the consolidated financial statements, we disclaim our opinion in this respect.

INDEPENDENT AUDITOR'S REPORT

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	5	**146,759**	181,664
Cost of sales		**(78,330)**	(108,800)
Gross profit		**68,429**	72,864
Other income	8	**22,580**	9,908
Distribution costs and selling expenses		**(3,812)**	(15,329)
Administrative expenses		**(65,284)**	(57,589)
Impairment loss on investment properties	16	**(84,467)**	–
Decrease in fair value of investment properties	16	**–**	(4,069)
Finance costs	9	**–**	(2,559)
Other gains and losses	10	**(27,138)**	21,945
(Loss) profit before tax		**(89,692)**	25,171
Income tax expense	11	**(5,602)**	(4,986)
(Loss) profit for the year	12	**(95,294)**	20,185
Other comprehensive (expenses) income:			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		**(55,217)**	(42,259)
Items that may be reclassified subsequently to profit or loss:			
(Decrease) increase in fair value of available-for-sale investment	18	**(1,508)**	368
Cumulative gain reclassified to profit or loss on sale of available-for-sale investment	18	**–**	(20,789)
		(1,508)	(20,421)
Other comprehensive expenses for the year		**(56,725)**	(62,680)
Total comprehensive expenses for the year		**(152,019)**	(42,495)
(Loss) profit for the year attributable to:			
Owners of the Company		**(62,158)**	10,994
Non-controlling interests		**(33,136)**	9,191
		(95,294)	20,185
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(116,767)**	(49,275)
Non-controlling interests		**(35,252)**	6,780
		(152,019)	(42,495)
		HK cents	*HK cents*
(Loss) earnings per share	14		
Basic		**(4.09)**	0.72

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	15	**199,086**	233,148
Investment properties	16	**409,263**	524,073
Prepaid lease payments	17	**4,837**	5,303
Available-for-sale investments	18	**–**	23,040
Other receivables and deposits	19	**–**	23,866
Restricted bank deposit	20	**17,797**	–
		630,983	809,430
Current assets			
Productions work in progress	21	**19,416**	4,988
Amounts due from customers for contract work	22	**2,455**	6,654
Trade receivables	23	**20,085**	32,147
Other receivables and deposits	19	**9,252**	9,085
Prepaid lease payments	17	**123**	131
Available-for-sale investment	18	**20,936**	–
Structured deposits	24	**19,007**	147,618
Bank balances and cash	25	**274,528**	137,317
		365,802	337,940
Current liabilities			
Advances from customers	26	**4,733**	6,872
Amounts due to customers for contract work	22	**101**	507
Trade payables	27	**2,426**	2,393
Other payables and accruals	28	**77,682**	63,035
Tax liabilities		**10,719**	10,063
Derivative financial instrument	31	**16,879**	–
Deferred income	29	**512**	8,516
		113,052	91,386
Net current assets		**252,750**	246,554
Total assets less current liabilities		**883,733**	1,055,984
Non-current liabilities			
Deferred income	29	**121**	466
Deferred tax liabilities	30	**38,386**	41,595
Derivative financial instrument	31	**–**	16,678
		38,507	58,739
Net assets		**845,226**	997,245

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Capital and reserves			
Share capital	32	**15,183**	15,183
Reserves		**811,884**	928,651
Equity attributable to owners of the Company		**827,067**	943,834
Non-controlling interests	33	**18,159**	53,411
Total equity		**845,226**	997,245

The consolidated financial statements on pages 55 to 124 were approved and authorised for issue by the Board of Directors on 22 March 2017 and are signed on its behalf by:

Li Shaofeng
DIRECTOR

Chen Zheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2016

	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*	Exchange reserve *HK$'000*	Special reserve *HK$'000* *(note d)*	Retained earnings *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2015	15,183	75,856	445	245,881	1,107	25,986	53,644	(1,209)	576,216	993,109	46,631	1,039,740
Profit for the year	–	–	–	–	–	–	–	–	10,994	10,994	9,191	20,185
Exchange differences on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	(39,848)	–	–	(39,848)	(2,411)	(42,259)
Increase in fair value of available-for-sale investment	–	–	–	–	–	368	–	–	–	368	–	368
Cumulative gain reclassified to profit or loss on sale of available-for-sale investment	–	–	–	–	–	(20,789)	–	–	–	(20,789)	–	(20,789)
Other comprehensive expenses for the year	–	–	–	–	–	(20,421)	(39,848)	–	–	(60,269)	(2,411)	(62,680)
Total comprehensive (expenses) income for the year	–	–	–	–	–	(20,421)	(39,848)	–	10,994	(49,275)	6,780	(42,495)
Sub-total	15,183	75,856	445	245,881	1,107	5,565	13,796	(1,209)	587,210	943,834	53,411	997,245
Transfer to statutory reserve	–	–	–	–	846	–	–	–	(846)	–	–	–
At 31 December 2015	15,183	75,856	445	245,881	1,953	5,565	13,796	(1,209)	586,364	943,834	53,411	997,245
Loss for the year	–	–	–	–	–	–	–	–	(62,158)	(62,158)	(33,136)	(95,294)
Exchange differences on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	(53,101)	–	–	(53,101)	(2,116)	(55,217)
Decrease in fair value of available-for-sale investment	–	–	–	–	–	(1,508)	–	–	–	(1,508)	–	(1,508)
Other comprehensive expenses for the year	–	–	–	–	–	(1,508)	(53,101)	–	–	(54,609)	(2,116)	(56,725)
Total comprehensive expenses for the year	–	–	–	–	–	(1,508)	(53,101)	–	(62,158)	(116,767)	(35,252)	(152,019)
Sub-total	15,183	75,856	445	245,881	1,953	4,057	(39,305)	(1,209)	524,206	827,067	18,159	845,226
Transfer to statutory reserve	–	–	–	–	2,363	–	–	–	(2,363)	–	–	–
At 31 December 2016	15,183	75,856	445	245,881	4,316	4,057	(39,305)	(1,209)	521,843	827,067	18,159	845,226

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2016

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 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 approximately 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 being acquired from a non-controlling shareholder during the year ended 31 December 2014 amounting to approximately HK$1,248,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(89,692)**	25,171
Adjustments for:			
Depreciation of property, plant and equipment		**20,016**	21,203
Finance costs		**–**	2,559
Changes in fair value of held-for-trading investments		**–**	(6,265)
Allowance for doubtful debts		**316**	136
Gain on disposal of available-for-sale investment	18	**–**	(20,789)
Loss on disposal of property, plant and equipment		**174**	111
Amortisation of prepaid lease payments		**128**	136
Changes in fair value of structured deposits		**(35)**	(992)
Decrease in fair value of investment properties	16	**–**	4,069
Write-off of construction deposit	19	**23,310**	–
Write-off of construction cost payables		**–**	(10,824)
Impairment loss on investment properties	16	**84,467**	–
Interest income		**(4,859)**	(4,709)
Government grants related to computer equipment acquisition and specific projects		**(8,112)**	(3,549)
Loss on fair value changes of derivative financial instrument	31	**201**	16,678
Operating cashflow before movements in working capital		**25,914**	22,935
Increase in productions work in progress		**(13,582)**	(991)
Decrease in amounts due from customers for contract work		**5,028**	252
Decrease in trade receivables		**9,665**	5,918
(Increase) decrease in other receivables and deposits		**(1,744)**	3,700
Decrease in held-for-trading investments		**–**	21,982
Decrease in advances from customers		**(1,694)**	(97)
Decrease in amounts due to customers for contract work		**(399)**	(2,843)
Increase (decrease) in trade payables		**188**	(1,554)
Increase (decrease) in other payables and accruals		**32,185**	(540)
Increase in restricted bank deposit		**(17,797)**	–
Cash generated from operations		**37,764**	48,762
Income tax paid		**(4,777)**	(2,189)
NET CASH FROM OPERATING ACTIVITIES		**32,987**	46,573

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2016

	NOTE	**2016 HK$'000**	2015 HK$'000
INVESTING ACTIVITIES			
Redemption of structured deposits		**877,389**	1,429,331
Interest received		**4,859**	4,709
Proceeds from disposal of property, plant and equipment		**200**	25
Purchases of structured deposits		**(753,963)**	(1,451,193)
Settlement of construction cost payables		**(12,874)**	(6,318)
Purchases of property, plant and equipment		**(2,857)**	(5,134)
Additions in investment properties		**–**	(10,254)
Proceeds from disposal of available-for-sale investment		**–**	88,303
Repayment from a third party		**–**	25,000
Government grants received related to assets	*29*	**–**	4,483
NET CASH FROM INVESTING ACTIVITIES		**112,754**	78,952
FINANCING ACTIVITIES			
Repayment of bank borrowings		**–**	(80,000)
Interest paid		**–**	(2,559)
CASH USED IN FINANCING ACTIVITIES		**–**	(82,559)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**145,741**	42,966
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**137,317**	98,043
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(8,530)**	(3,692)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, COMPRISING BANK BALANCES AND CASH		**274,528**	137,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (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. The principal activities of the Group are computer graphic ("CG") creation and production, films and television programme production, CG training courses and property development. The principal activities and other particulars of its principal subsidiaries as at 31 December 2016 are set out in note 41.

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 ("HKD") for the convenience of the readers for both years.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

Except as described below, the application of the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 1 ***Disclosure Initiative***

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. Hence, the grouping and ordering of certain notes has been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to financial instruments and capital risk management was reordered to notes 39 and 40, respectively. Other than the above presentation changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

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 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 ***Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have an impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company ("Directors") anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Directors complete a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 ***Leases***

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 and the related interpretations when it becomes effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. 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 lands for owned use while other operating lease payments are presented as operating cash flows. Under the 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.

In contrast to lessee accounting, 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 2016, the Group as lessee has non-cancellable operating lease commitments of HK$397,444,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence 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 upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

The Directors do not anticipate that the applications of other new and amendments to HKFRSs will have a material impact on the Group's consolidated financial statements.

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, leasing transactions that are within the scope of HKAS 17 Leases, 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.

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.

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 where 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 into line with those used by other members of the Group.

All intra-group assets and liabilities, equity, income, expenses and cashflows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

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

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 service fee income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established provided that 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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, as measured by 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 from customers. 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.

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 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

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 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.

Construction costs and any directly attributable expenditure incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction.

When the fair value of an investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or the construction is completed, whichever is earlier.

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 the profit or loss in the period in which the property is derecognised.

Leasing

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.

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 term of the relevant lease.

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 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease 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 lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease 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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 entities are translated into the presentation currency of the Company (i.e. Hong Kong dollars) using exchange rate prevailing at the end of the reporting period. Income and expenses item are translated at the average exchange rates for the year. 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).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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. 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.

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.

Retirement benefits 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 before tax" as reported in the consolidated statement of profit or loss and other comprehensive income 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 base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets generally are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 rates (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 liabilities or deferred tax assets 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. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in the 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 productions 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.

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 initially measured at fair value. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other income.

Financial assets at FVTPL

Financial asset are 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 future; or
- on initial recognition, it is a part of an identified portfolio of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at FVTPL *(Continued)*

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

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, restricted bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as any of the categories of financial assets set out above.

For available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, it is measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below) until its fair value becomes reliably determinable.

For available-for-sale equity investment that is measured at fair value once fair value is determined reliably, changes in the carrying amount of available-for-sale monetary financial asset relating to interest income calculated using the effective interest method and dividend on available-for-sale equity investment is recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial asset is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss of financial assets below).

Dividend on available-for-sale equity instrument is recognised in profit and loss when the Group's right to receive the dividends is established.

Impairment loss of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where 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 an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment loss of financial assets *(Continued)*
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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses 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 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into 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 the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derivative financial instrument

Derivative is initially recognised at fair value at the date when derivative contract is entered into and is subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or 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 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on 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 those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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 belongs. 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Critical judgments in applying accounting policies *(Continued)*

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 taxes on changes of fair value of investment properties, taking into account the PRC enterprise income tax effect.

Classification of building

As at 31 December 2016 and 2015, the Group has leased part of its building for rental purpose, and the remaining part are held for office premises. The management of the Group considers the entire building cannot be sold separately and the self-occupied portion of the property is not an insignificant portion. Therefore, the Directors have determined the building is classified as property, plant and equipment and accounted for at cost less accumulated depreciation.

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.

Estimated impairment of construction deposit and properties interest under construction

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The Group also takes into consideration other uncertainties (e.g. litigation result) on realising the construction deposit and properties interest under construction. Where the future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2016, the carrying amount of construction deposit is approximately HK$Nil, net of accumulated impairment loss of HK$23,310,000 (2015: HK$23,866,000, net of accumulated impairment loss of HK$Nil).

As at 31 December 2016, the carrying amount of properties interest under construction is approximately HK$Nil, net of accumulated impairment loss of HK$84,467,000 (2015: HK$86,483,000, net of accumulated impairment loss of HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

Fair value measurement and valuation process

Some of the Group's assets and liability 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 or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group would consider to engages 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 certain types of financial instruments and investment properties. Notes 16, 18, 24, 31 and 40(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and a liability.

The Group's completed investment properties as at 31 December 2016 are stated at fair value based on the valuation performed by the independent professional valuer. In determining the fair value, the valuer adopted the income approach by capitalising the rental income with due allowance for reversionary income potential and taking into consideration the rental payable to 珠江電影製片有限公司("Pearl River Film Production"), 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 will remain unchanged and the terms and conditions of the Framework Agreement (as defined in note 16) governing Phase I of the Pearl River Film Cultural Park (as defined in note 16) will continue to be enforceable and the allocation basis of the operating lease payments between Phase I and Phase II of Pearl River Film Cultural Park in the future years will continue to be enforceable. 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. Should there be changes in the assumptions due to market conditions, the fair value of the completed investment properties will change in the future. The carrying amount of investment properties whereby fair value can be measured reliably as at 31 December 2016 is HK$409,263,000 (2015: HK$437,590,000).

Available-for-sale investment and its related derivative financial instrument as at 31 December 2016 are stated at fair value based on the valuation performed by the independent professional valuer. The fair value of this available-for-sale investment is determined based on the market approach by comparison of valuation multiples of similar companies as available in the relevant markets. The fair value of the derivative financial instrument is determined with reference to the future income flows which are estimated based on the underlying projected financial performance of GDC Technology Limited ("GDC Tech") and the price adjustment formula set out in the sale and purchase agreement. Should there be changes in the assumptions due to market conditions, the fair value of this available-for-sale investment and the derivative financial instrument will change in the future. The carrying amounts of this available-for-sale investment and derivative financial instrument as at 31 December 2016 are HK$20,936,000 and HK$16,879,000, respectively (2015: HK$22,444,000 and HK$16,678,000, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 or sold.

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 to sale and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires 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 and loss. As at 31 December 2016, the carrying amount of property, plant and equipment is HK$199,086,000 (2015: HK$233,148,000).

Estimation of allowance on productions work in progress

As at 31 December 2016, the carrying amount of the Group's productions work in progress is HK$19,416,000 (2015: HK$4,988,000). The management of the Group reviews the net realisable value of these productions work in progress on a project by project basis at the end of the reporting period and makes allowances for 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 changes in the estimation of the selling price and estimated cost, additional allowances might be required.

5. REVENUE

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

	2016	2015
	HK$'000	HK$'000
Revenue from contracts for CG creation and production *(note)*	**43,340**	63,700
Rental and building management service fee income	**97,166**	99,093
CG training fee	**6,253**	18,871
	146,759	181,664

Note: During the year ended 31 December 2016, no animated film has been released. For the year ended 31 December 2015, an amount of approximately HK$15,524,000 was attributable to revenue from the release of one animated film based on an agreed sharing percentage of the box office receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. 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:

- 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 – culture, entertainment and related commercial property investment

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

Segment revenue and results

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

For the year ended 31 December 2016

	CG creation and production *HK$'000*	**CG training** *HK$'000*	**Cultural park** *HK$'000*	**Consolidated** *HK$'000*
Revenue	**96,454**	**6,253**	**44,052**	**146,759**
Segment result	**31,138**	**(4,113)**	**(98,937)**	**(71,912)**
Unallocated income and other gains and losses				**509**
Unallocated expenses				**(18,289)**
Loss before tax				**(89,692)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2015

	CG creation and production *HK$'000*	CG training *HK$'000*	Cultural park *HK$'000*	Consolidated *HK$'000*
Revenue	116,670	18,871	46,123	181,664
Segment result	2,673	(2,337)	32,845	33,181
Unallocated income and other gains and losses				11,019
Unallocated expenses				(19,029)
Profit before tax				25,171

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 investment income and central administration costs. This is the measure reported to the CODM of the Company for the purposes of resources 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

At 31 December 2016

	CG creation and production *HK$'000*	CG training *HK$'000*	Cultural park *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	**461,180**	**2,860**	**445,335**	**909,375**
Unallocated assets				
– Available-for-sale investment				**20,936**
– Bank balances and cash				**63,801**
– Others				**2,673**
Consolidated total assets				**996,785**
Liabilities				
Segment liabilities	**63,669**	**1,905**	**66,696**	**132,270**
Unallocated liabilities				
– Derivative financial instrument				**16,879**
– Others				**2,410**
Consolidated total liabilities				**151,559**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2015

	CG creation and production *HK$'000*	CG training *HK$'000*	Cultural park *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	460,147	6,681	571,132	1,037,960
Unallocated assets				
– Available-for-sale investments				23,040
– Bank balances and cash				82,523
– Others				3,847
Consolidated total assets				1,147,370
Liabilities				
Segment liabilities	56,267	3,492	72,022	131,781
Unallocated liabilities				
– Derivative financial instrument				16,678
– Others				1,666
Consolidated total liabilities				150,125

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2016

	Amounts included in the measure of segment profit or loss or segment assets					
	CG creation and production *HK$'000*	**CG training** *HK$'000*	**Cultural park** *HK$'000*	**Segment total** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated total** *HK$'000*
Additions to non-current assets *(note)*	**2,839**	**–**	**–**	**2,839**	**18**	**2,857**
Depreciation of property, plant and equipment	**16,175**	**2,690**	**265**	**19,130**	**886**	**20,016**
Loss (gain) on disposal of property, plant and equipment	**196**	**(22)**	**–**	**174**	**–**	**174**
Allowance for doubtful debt	**316**	**–**	**–**	**316**	**–**	**316**
Amortisation of prepaid lease payments	**128**	**–**	**–**	**128**	**–**	**128**
Interest income	**(4,331)**	**(11)**	**(8)**	**(4,350)**	**(509)**	**(4,859)**
Government grants	**(17,536)**	**(70)**	**–**	**(17,606)**	**–**	**(17,606)**
Write-off of construction deposit	**–**	**–**	**23,310**	**23,310**	**–**	**23,310**
Impairment loss on investment properties	**–**	**–**	**84,467**	**84,467**	**–**	**84,467**

For the year ended 31 December 2015

	Amounts included in the measure of segment profit or loss or segment assets					
	CG creation and production *HK$'000*	CG training *HK$'000*	Cultural park *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated total *HK$'000*
Additions to non-current assets *(note)*	1,717	637	10,254	12,608	2,780	15,388
Depreciation of property, plant and equipment	18,298	1,843	373	20,514	689	21,203
(Gain) loss on disposal of property, plant and equipment	(21)	–	–	(21)	132	111
Allowance for doubtful debt	17	–	119	136	–	136
Amortisation of prepaid lease payments	136	–	–	136	–	136
Interest income	(3,922)	(12)	(19)	(3,953)	(756)	(4,709)
Government grants	(4,927)	–	–	(4,927)	–	(4,927)
Write-off of construction cost payables	–	–	(10,824)	(10,824)	–	(10,824)

Note: Non-current assets exclude available-for-sale investments, other receivables and deposits and restricted bank deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

The Group's revenue 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)*	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**117,636**	155,623	**611,243**	759,713
USA	**14,509**	1,241	**–**	–
Denmark	**13,951**	16,708	**–**	–
India	**663**	3,963	**–**	–
France	**–**	4,129	**–**	–
Hong Kong	**–**	–	**1,943**	2,811
	146,759	181,664	**613,186**	762,524

Note: Non-current assets exclude available-for-sale investments, other receivables and deposits and restricted bank deposit.

Information about major customers

During the years ended 31 December 2016 and 2015, none of the customers contributed over 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(a) Directors' and Chief Executive Officer's emoluments

The Directors' and chief executive's remuneration for the year ended 31 December 2016 amounted to HK$7,483,000 (2015: HK$7,431,000), disclosed pursuant to the applicable Listing Rules and CO, details are as follows:

For the year ended 31 December 2016

	Mr. Li Shaofeng *HK$'000*	Mr. Chen Zheng *HK$'000*	Mr. Jin Guo Ping *HK$'000*	Ms. Cheng Xiaoyu *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS					
Fees	–	–	–	–	–
Salaries and other benefits	–	3,600	1,200	1,500	6,300
Retirement benefits scheme contribution	–	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 *HK$'000*
NON-EXECUTIVE DIRECTOR	
Fee	190

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

	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 of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(a) Directors' and Chief Executive Officer's emoluments *(Continued)*

For the year ended 31 December 2015

	Mr. Li Shaofeng *HK$'000*	Mr. Chen Zheng *HK$'000*	Mr. Jin Guo Ping *HK$'000*	Ms. Cheng Xiaoyu *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS					
Fees	–	–	–	–	–
Salaries and other benefits	–	3,600	1,200	1,500	6,300
Retirement benefits scheme contribution	–	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 *HK$'000*
NON-EXECUTIVE DIRECTOR	
Fee	190

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

	Mr. Kwong Che Keung, Gordon *HK$'000*	Prof. Japhet Sebastian Law *HK$'000*	Mr. Lam Yiu Kin (appointed on 27 July 2015) *HK$'000*	Mr. Chan Chung Chun (passed away on 8 May 2015) *HK$'000*	Total *HK$'000*
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Fees	240	240	103	85	668

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

Mr. Chen Zheng is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for service rendered by him as Chief Executive Officer.

For the years ended 31 December 2016 and 2015, Mr. Li Shaofeng waived his emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2015: three) are the directors whose emoluments are included in the disclosures above. The emoluments of the remaining two (2015: two) individuals are as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries and other benefits	**2,107**	2,017
Retirement benefits schemes contributions	**36**	36
	2,143	2,053

The emoluments of the above two (2015: two) individuals are within the following bands:

	2016	2015
	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Government grants *(note)*	**17,606**	4,927
Interest income	**4,859**	4,709
Others	**115**	272
	22,580	9,908

Note: During the year ended 31 December 2016, government grants included subsidies and awards of HK$9,494,000 (2015: HK$1,378,000) received from the relevant authorities in PRC which 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$8,112,000 (2015: HK$3,549,000) 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 29.

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank borrowings	**–**	2,559

10. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Write-off of construction deposit *(note 16)*	**(23,310)**	–
Late payment surcharges on overdue rental *(note 16)*	**(3,172)**	–
Allowance for doubtful debt	**(316)**	(136)
Loss on fair value changes of derivative financial instrument	**(201)**	(16,678)
Loss on disposal of property, plant and equipment	**(174)**	(111)
Changes in fair value of structured deposits	**35**	992
Gain on disposal of available-for-sale investment	**–**	20,789
Write-off of construction cost payables	**–**	10,824
Changes in fair value of held-for-trading investments *(note)*	**–**	6,265
	(27,138)	21,945

Note: During the year ended 31 December 2015, the changes in fair value of held-for-trading investments include an amount of approximately HK$6,265,000 attributable to the realised gain on fair value changes of held-for-trading investments. All held-for trading investments were disposed in 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
The income tax expense comprises:		
PRC Enterprise Income Tax ("EIT")		
Current tax	**6,651**	4,287
Overprovision in prior years	**(509)**	(1,944)
	6,142	2,343
Deferred tax *(note 30)*	**(540)**	2,643
	5,602	4,986

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.

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 State Council for the tax policies on the animation enterprise (Caishui [2009] No. 65), the PRC subsidiaries which qualified as animation enterprise are entitled to tax concession, whereby their applicable tax rate will progressively increase to 25%. The tax concession is expired in 2016. One of the PRC subsidiaries was able to enjoy a preferential tax rate at 12.5% from 2014 till 2016 as it was qualified as animation enterprise. In addition, according to the circular of State Council for the Enterprise income tax 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 was qualified as ATSE. For the year ended 31 December 2016, the relevant tax rates for the Group's subsidiaries in the PRC was ranged from 12.5% to 25% (2015: 12.5% to 25%).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. INCOME TAX EXPENSE *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
(Loss) profit before tax	**(89,692)**	25,171
Tax calculated at PRC EIT rate of 25% (2015: 25%)	**(22,423)**	6,293
Tax effect of income not taxable for tax purpose	**(1,381)**	(7,274)
Tax effect of expenses not deductible for tax purpose	**4,917**	5,513
Tax effect of deductible temporary differences not recognised	**21,117**	–
Overprovision in respect of prior years	**(509)**	(1,944)
Tax effect of tax losses not recognised	**4,370**	5,148
Utilisation of tax losses previously not recognised	**(289)**	(3,389)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(120)**	1,100
Others	**(80)**	(461)
Income tax expense for the year	**5,602**	4,986

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:

	2016	2015
	HK$'000	*HK$'000*
Estimated tax losses that may be carried forward	**63,665**	41,945

The estimated tax losses are available for offset against future profits subject to approval from the relevant tax authority. As at 31 December 2016, included in unrecognised tax losses are losses of HK$888,000, HK$Nil, HK$307,000, HK$3,440,000, HK$3,903,000 that will expire in 2017, 2018, 2019, 2020 and 2021, respectively. As at 31 December 2015, included in unrecognised tax losses are losses of HK$Nil, HK$954,000, HK$215,000, HK$469,000, HK$4,583,000 that will expire in 2016, 2017, 2018, 2019 and 2020, respectively. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$84,467,000 (31 December 2015: HK$Nil) in respect of impairment loss on investment properties. 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.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK$155,724,000 as at 31 December 2016 (2015: HK$121,625,000) 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 2016

12. (LOSS) PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments (note 7(a)):		
– Salaries, wages and other benefits	**89,105**	91,941
– Retirement benefit scheme contributions	**5,280**	6,335
Total staff costs	**94,385**	98,276
Less: amounts included in contract costs	**(10,877)**	(16,165)
amounts included in productions work in progress	**(11,120)**	(3,909)
	72,388	78,202
Allowance for doubtful debts	**316**	136
Amortisation of prepaid lease payments	**128**	136
Auditor's remuneration	**1,560**	1,285
Contract costs recognised as an expense:		
Staff costs	**23,570**	34,670
Others	**16,536**	22,858
	40,106	57,528
Depreciation of property, plant and equipment	**22,445**	24,423
Less: amounts included in contract costs	**(1,260)**	(2,610)
amounts included in productions work in progress	**(1,169)**	(610)
	20,016	21,203
Exchange (gain) loss, net	**(745)**	2,551
Loss on disposal of property, plant and equipment	**174**	111
Minimum lease payments under operating leases	**19,119**	12,043
Less: amounts included in contract costs	**–**	(24)
	19,119	12,019
Gross rental income from investment properties	**(27,475)**	(32,494)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**2,728**	4,651
	(24,747)	(27,843)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIVIDENDS

No dividend is paid, declared or proposed during the years ended 31 December 2016 and 2015, and no dividend has been proposed since the end of the reporting period.

14. (LOSS) EARNINGS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(62,158)**	10,994

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**1,518,256**	1,518,256

No diluted (loss) earnings per share for both 2016 and 2015 were presented as there were no potential ordinary shares issue for both 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2015	204,979	31,992	74,752	11,953	61,534	5,308	390,518
Exchange realignment	(9,295)	(1,420)	(3,390)	(508)	(2,680)	(125)	(17,418)
Additions	–	2,037	–	1,955	1,142	–	5,134
Disposals	–	(650)	–	(4,679)	(750)	(320)	(6,399)
At 31 December 2015	195,684	31,959	71,362	8,721	59,246	4,863	371,835
Exchange realignment	(12,667)	(1,737)	(4,619)	(454)	(3,658)	(171)	(23,306)
Additions	–	–	–	25	2,832	–	2,857
Disposals	–	(4,437)	–	(1,571)	(4,229)	–	(10,237)
At 31 December 2016	183,017	25,785	66,743	6,721	54,191	4,692	341,149
DEPRECIATION AND AMORTISATION							
At 1 January 2015	17,688	13,963	32,253	8,232	51,261	3,392	126,789
Exchange realignment	(937)	(734)	(1,709)	(402)	(2,401)	(79)	(6,262)
Provided for the year	4,188	4,153	7,636	1,891	5,807	748	24,423
Eliminated on disposals	–	(589)	–	(4,606)	(748)	(320)	(6,263)
At 31 December 2015	20,939	16,793	38,180	5,115	53,919	3,741	138,687
Exchange realignment	(1,523)	(1,054)	(2,777)	(309)	(3,418)	(125)	(9,206)
Provided for the year	3,958	4,713	7,217	1,055	5,004	498	22,445
Eliminated on disposals	–	(4,425)	–	(1,233)	(4,205)	–	(9,863)
At 31 December 2016	23,374	16,027	42,620	4,628	51,300	4,114	142,063
CARRYING VALUES							
At 31 December 2016	159,643	9,758	24,123	2,093	2,891	578	199,086
At 31 December 2015	174,745	15,166	33,182	3,606	5,327	1,122	233,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 as at 31 December 2016 is situated on land in the PRC with a lease term of 50 years. The Group leased part of its building for rental purpose for the year ended 31 December 2016 and 2015.

16. INVESTMENT PROPERTIES

	Completed properties *HK$'000*	**Properties interest under construction** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	462,500	79,850	542,350
Additions	–	10,254	10,254
Decrease in fair value recognised in profit or loss	(4,069)	–	(4,069)
Exchange realignment	(20,841)	(3,621)	(24,462)
At 31 December 2015	437,590	86,483	524,073
Impairment loss	–	(84,467)	(84,467)
Exchange realignment	(28,327)	(2,016)	(30,343)
At 31 December 2016	409,263	–	409,263

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 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a subsidiary of the Company and Pearl River Film Production, a limited liability company established in the PRC and a state-owned enterprise, to redevelop 珠影文化產業園 ("Pearl River Film Cultural Park").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. INVESTMENT PROPERTIES *(Continued)*

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 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 2016, Phase I of the Pearl River Film Cultural Park was completed and included as completed properties as further described below.

The properties 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 31 December 2015. The original period during which construction was to be completed in accordance with the Framework Agreement has expired. Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park in 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) (“Guangzhou Intermediate People’s Court”) in respect of an alleged breach of the Framework Agreement governing the lease and reconstruction of the related land (the “Alleged Breach”) and compensation of damages. Guangdong Cultural Park denied Pearl River Film Production’s accusations and the responsibility of the Alleged Breach and filed a counterclaim against Pearl River Film Production in Guangzhou Intermediate People’s Court in May 2016 to demand Pearl River Film Production to continue executing the Framework Agreement and compensation of damages (please refer to note 42(a) for details).

Guangdong Cultural Park received the civil judgment issued on 11 October 2016 by Guangzhou Intermediate People's Court (the “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 approximately RMB2,722,000 (equivalent to approximately 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 approximately 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. INVESTMENT PROPERTIES *(Continued)*

In November 2016, Guangdong Cultural Park lodged an appeal with the Guangzhou Intermediate People's Court requesting for an order that the Civil Judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs (the "Appeal").

During the year ended 31 December 2016, in light of the Civil Judgment, the Group recognised an impairment loss on properties interest under construction and wrote off the construction deposit in respect of the Pearl River Film Cultural Park which amounted to approximately HK$84,467,000 and HK$23,310,000, respectively.

The completed properties represent Phase I of the Pearl River Film Cultural Park which is a prime shopping mall and are stated at the fair value as at 31 December 2016 and 2015. The fair value of the Group's investment properties as at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited ("Asset Appraisal"), independent qualified professional valuer not connected to the Group.

Guangdong Cultural Park continues to operate the completed properties. Therefore, for the completed properties and its related rental business representing Phase I of the Pearl River Film Cultural Park, the Group has continued to account for these assets as investment properties which are stated at their fair value of approximately HK$409,263,000 as at 31 December 2016 and record the rentals receivable from lessees as the Group's revenue of approximately HK$44,052,000 for the year then ended, 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 will remain unchanged and the terms and conditions of the Framework Agreement governing Phase I of the Pearl River Film Cultural Park will continue to be enforceable.

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 with the assumptions as described as above and the allocation basis of the operating lease payments between Phase I and Phase II of Pearl River Film Cultural Park in the future years would remain the same as if the Framework Agreement is executing continuously.

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 from the valuation technique used in the prior year. 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 2016

16. INVESTMENT PROPERTIES *(Continued)*

Key inputs used in valuing the investment properties include discount rate which ranges from 6.5% to 7% (2015: 6.5% to 7%) or risk premium of 3.5% (2015: 5%) and market rental which ranges from RMB44 to RMB500 (2015: RMB44 to RMB500) per square metre per month or land yield rate of 5% (2015: 6.5%). An increase in the discount rate or risk premium would result in a decrease in fair value measurement 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 measurement of the investment properties, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	Level 3	**Fair value as at 31 December 2016**
	HK$'000	***HK$'000***
Pearl River Film Cultural Park Phase I	**409,263**	**409,263**

	Level 3	Fair value as at 31 December 2015
	HK$'000	*HK$'000*
Pearl River Film Cultural Park Phase I	437,590	437,590

There was no transfer between different levels during the year.

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:

	2016	2015
	HK$'000	*HK$'000*
Current	**123**	131
Non-current	**4,837**	5,303
	4,960	5,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Equity interest in GDC Tech *(note 1)*	**20,936**	22,444
Equity interest in a private entity established in the PRC *(note 2)*	**–**	596
	20,936	23,040
Analysed for reporting purposes as:		
Current	**20,936**	–
Non-current	**–**	23,040
	20,936	23,040

Note: (1) On 28 November 2014, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, and Huayi Brothers International Investment Limited ("Huayi Brothers") entered into the sale and purchase agreement, pursuant to which Huayi Brothers has conditionally agreed to acquire and GDC Holdings has conditionally agreed to sell all the GDC Tech shares held by GDC Holdings (i.e. 29,779,777 shares, representing approximately 11.38% of the issued share capital of GDC Tech as at the date hereof) at an initial consideration of US$0.4778 per GDC Tech share (subject to adjustment) (the "Disposal"). Details of the Disposal were set out in the announcement of the Company dated 16 October 2014, 14 November 2014, 28 November 2014, 19 December 2014, 24 December 2014 and 26 February 2015 and the circular of the Company dated 30 December 2014.

As at 31 December 2014, this available-for-sale investment was measured at fair value of HK$110,379,000 with reference to the quoted transaction price of the Disposal. Gain on revaluation of available-for-sale investment of HK$25,986,000 is recognised under investment revaluation reserve.

On 26 February 2015, all the conditions precedent had been fulfilled and pursuant to the sales and purchase agreement, 23,823,822 GDC Tech shares were disposed of to Huayi Brothers at US$0.4778 per share and the cumulative gain amounted to approximately HK$20,789,000 previously accumulated in the investment revaluation reserve is reclassified to profit or loss. Pursuant to the sales and purchase agreement, the remaining 5,955,955 shares, representing approximately 2.28% of the share capital of GDC Tech shares shall be sold and transferred to Huayi Brothers in 2017 at US$0.4778 per share, subject to adjustment with regards to the terms and conditions of the sales and purchase agreement.

As at 31 December 2015, the fair value of this available-for-sale investment had been arrived at on the basis of a valuation carried out by Asset Appraisal. The fair value was determined based on market approach by comparison of valuation multiples of similar companies as available in the relevant markets and a fair value gain of approximately HK$368,000 was recognised under investment revaluation reserve. Approximately HK$22,444,000 was classified as non-current asset and the related derivative financial instrument, which was initially recognised at fair value on 26 February 2015 when derivative contract was entered into, was subsequently carried at their fair value.

As at 31 December 2016, the fair value of this available-for-sale investment has been arrived at on the basis of a valuation carried out by Asset Appraisal. The fair value is determined based on market approach by comparison of valuation multiples of similar companies as available in the relevant markets and a fair value loss of approximately HK$1,508,000 is recognised under investment revaluation reserve. Approximately HK$20,936,000 is reclassified to current assets based on the terms of sale and purchase agreement that the remaining 5,955,955 GDC Tech shares shall be sold and transferred to Huayi Brothers in first half of 2017. The related derivative financial instrument, which was initially recognised at fair value on 26 February 2015 when derivative contract is entered into, is carried at its fair value at the end of the subsequent reporting period with details set out in note 31.

(2) In December 2016, the equity interest in a private entity was disposed to an independent third party with a consideration of approximately HK$596,000. The consideration was offset with the other payable to this independent third party.

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19. OTHER RECEIVABLES AND DEPOSITS

	2016 HK$'000	2015 HK$'000
Construction and other deposits	**887**	25,004
Other receivables and prepayments	**8,365**	7,947
	9,252	32,951
Analysed for reporting purposes as:		
Current	**9,252**	9,085
Non-current *(note)*	**–**	23,866
	9,252	32,951

Note: As at 31 December 2015, the non-current deposit was paid by Guangdong Cultural Park to Pearl River Film Production of RMB20,000,000 (equivalent to HK$23,310,000) for the development of the Pearl River Film Cultural Park in 2010. The deposit been has been fully written off during the year ended 31 December 2016 in light of the Civil Judgment (notes 16 and 42(a)).

20. RESTRICTED BANK DEPOSIT

During the current year, 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 42(a) for details). The restricted bank deposit is interest free and it has been classified as non-current asset as the ultimate outcome of the related lawsuits cannot be assessed at this stage.

21. PRODUCTIONS WORK IN PROGRESS

	2016 HK$'000	2015 HK$'000
Television series	**3,474**	–
Movies	**15,942**	4,988
	19,416	4,988

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For the year ended 31 December 2016

22. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following are details of contracts from CG production in progress which is expected to be realised within one year from the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses	**24,812**	34,066
Less: progress billings	**(22,458)**	(27,919)
	2,354	6,147
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**2,455**	6,654
Amounts due to customers for contract work	**(101)**	(507)
	2,354	6,147

23. TRADE RECEIVABLES

	2016	2015
	HK$'000	HK$'000
Trade receivables	**20,085**	32,147

Except for rental income 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 at the end of the reporting period of the trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	2016	2015
	HK$'000	*HK$'000*
Within three months	**17,142**	31,908
Three to six months	**645**	–
Over six months	**2,298**	239
	20,085	32,147

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.

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For the year ended 31 December 2016

23. TRADE RECEIVABLES *(Continued)*

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$3,651,000 (2015: HK$756,000) which are past due at the end of the reporting period for which the Group does not provide for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these receivables.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2016	2015
	HK$'000	*HK$'000*
Within three months	**899**	517
Three to six months	**645**	–
Over six months	**2,107**	239
	3,651	756

Movements in the allowance for doubtful debts

	2016	2015
	HK$'000	*HK$'000*
1 January	**–**	–
Impairment losses recognised on receivables	**316**	136
Amounts written off as uncollectible	**–**	(136)
Exchange realignment	**(13)**	–
31 December	**303**	–

24. STRUCTURED DEPOSITS

	2016	2015
	HK$'000	HK$'000
Principal-protected financial products	**19,007**	147,618

The structured deposits as at 31 December 2016 and 2015 are principal-protected deposits issued by banks in the PRC. As at 31 December 2016, the principal-protected deposits carried expected interest rates at 2.6% (2015: 2.6% to 3.5%) per annum, depending on the market prices of the financial instruments, including money market instruments and debt instruments. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The Directors consider the fair value of the structured deposit, which are based on the prices the counterparty banks would pay to redeem at 31 December 2016 and 2015, respectively, approximate to their carrying values at 31 December 2016 and 2015.

All the structured deposits have been redeemed in early January 2017. The change in fair value up to the date of redemption is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. BANK BALANCES AND CASH

As at 31 December 2016, bank balances (including fixed deposits) carried interest at market rates which range from 0.01% to 1.57% per annum (2015: 0.01% to 1.35% per annum).

26. ADVANCES FROM CUSTOMERS

	2016	2015
	HK$'000	*HK$'000*
Receipt in advance from students	**1,653**	1,490
Deposits and advances from customers	**3,080**	5,382
	4,733	6,872

27. 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:

	2016	2015
	HK$'000	HK$'000
Within three months	**1,528**	614
Three to twelve months	**50**	893
Over one year	**848**	886
	2,426	2,393

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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For the year ended 31 December 2016

28. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Construction cost payables	**2,634**	15,973
Accruals	**28,316**	15,859
Other tax payables	**1,669**	1,697
Rental deposits from tenants	**14,229**	15,172
Receipt in advance *(note)*	**16,741**	–
Others	**14,093**	14,334
	77,682	63,035

Note: In December 2016, a subsidiary of the Group has entered into a memorandum of understanding with an independent third party and received an advance payment of RMB15,000,000 (equivalent to approximately HK$16,741,000). The advance payment is unsecured, non-interest bearing and has no fixed repayment terms. The advance payment received by a subsidiary of the Group will be used as the working capital for the potential joint development of a CG creation and production centre in Foshan.

29. DEFERRED INCOME

	2016 HK$'000	2015 HK$'000
Deferred income related to government grants:		
Current portion	**512**	8,516
Non-current portion	**121**	466
	633	8,982

In 2016, the Group received government subsidies and awards of HK$Nil (2015: HK$4,483,000) 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 when received and is 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$8,112,000 (2015: HK$3,549,000) is resulted in the current year. As at 31 December 2016, an amount of HK$633,000 (2015: HK$8,982,000) remains to be amortised. The current portion of HK$512,000 (2015: HK$8,516,000) represents the grants to be amortised to profit or loss next year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. DEFERRED TAXATION

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

	Fair value change on investment properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2015	40,892	–	40,892
(Credit) charge to profit or loss for the year	(1,017)	3,660	2,643
Exchange realignment	(1,822)	(118)	(1,940)
At 31 December 2015	38,053	3,542	41,595
Credit to profit or loss for the year	–	(540)	(540)
Exchange realignment	(2,463)	(206)	(2,669)
At 31 December 2016	35,590	2,796	38,386

31. DERIVATIVE FINANCIAL INSTRUMENT

On 26 February 2015, all the conditions precedent had been fulfilled and pursuant to the sale and purchase agreement, 23,823,822 GDC Tech shares were disposed of to Huayi Brothers at US$0.4778 per share, the remaining 5,955,955 GDC Tech shares shall be sold and transferred to Huayi Brothers in 2017 at US$0.4778 per share, subject to adjustment with regards to the terms and conditions of the sale and purchase agreement and the related derivative financial instrument, which was initially recognised at fair value on 26 February 2015 when derivative contract is entered into, is subsequently remeasured to its fair value at the end of the subsequent reporting period. The management of the Group considers that the fair value of such derivative financial instrument at initial recognition was not significant.

The fair value of the derivative financial instrument as at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out by Asset Appraisal. The fair value is determined with reference to the future income flows which are estimated based on the underlying projected financial performance of GDC Tech and the price adjustment formula set out in the sale and purchase agreement. At the end of the reporting period, the derivative financial instrument was stated at fair value of HK$16,879,000 (2015: HK$16,678,000).

The derivative financial instrument is reclassified as current liability based on the terms of the sale and purchase agreement that the remaining 5,955,955 GDC Tech shares shall be sold and transferred to Huayi Brothers in first half of 2017.

The details of fair value measurement of the derivative financial instrument is disclosed in note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 2016	2,400,000,000	24,000
Issued and fully paid		
At 1 January 2015, 31 December 2015 and 2016	1,518,255,540	15,183

33. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries HK$'000
At 1 January 2015	46,631
Share of profit for the year	9,191
Share of exchange differences on translation of financial statements from functional currency to presentation currency	(2,411)
At 31 December 2015	53,411
Share of loss for the year	(33,136)
Share of exchange differences on translation of financial statements from functional currency to presentation currency	(2,116)
At 31 December 2016	18,159

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 opinion. Option is immediately vested at the date of grant and a consideration of HK$1 is payable upon acceptance of the offer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. SHARE OPTION SCHEME *(Continued)*

Share option scheme of the Company *(Continued)*

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 2016 and 2015.

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:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**15,800**	18,412
In the second to fifth years inclusive	**60,215**	59,997
After fifth year	**321,429**	357,995
	397,444	436,404

Operating lease payment represents rentals payable by the Group for certain of its office premises, production studios, training centers, warehouse, staff quarters and occupying the land in Guangzhou for Pearl River Film Cultural Park project (note 16). Except for the operating lease arrangement with Pearl River Film Production for a term up to 31 December 2045, subject to the ultimate outcome of the related lawsuit which cannot be assessed at this stage, leases for properties are in general, negotiated for a term ranging from one to three years.

The Group as lessor

The Group leased part of its building and the investment properties under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 12 years (2015: 2 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:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**59,148**	67,257
In the second to fifth years inclusive	**130,221**	144,764
After fifth year	**18,233**	38,768
	207,602	250,789

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For the year ended 31 December 2016

36. CAPITAL COMMITMENTS

	2016	2015
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment properties	**7,802**	8,342

37. RETIREMENT BENEFITS SCHEME

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"). Contributions totalling approximately HK$Nil (2015: HK$58,000) payable to the Retirement Schemes as at 31 December 2016 are included in other payables and accruals. There was no forfeited contribution in both years.

38. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2016	2015
	HK$'000	*HK$'000*
Short-term benefits	**10,253**	9,940
Post-employment benefits	**360**	360
	10,613	10,300

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

40. FINANCIAL INSTRUMENTS

40a. Categories of financial instruments

	2016	2015
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	**20,936**	23,040
Financial assets at FVTPL	**19,007**	147,618
Loans and receivables (including cash and cash equivalents)	**316,767**	172,773
Financial liabilities		
Derivative financial instrument at fair value	**16,879**	16,678
Amortised cost	**50,123**	47,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. FINANCIAL INSTRUMENTS *(Continued)*

40b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, restricted bank deposit, trade receivables, other receivables, structured deposits, bank balances and cash, trade payables, other payables and derivative financial instrument. 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 HKD 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 2016 and 2015, 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 rates changes on structured deposits and bank balances are not significant and therefore, no sensitivity analysis is presented in this regard.

Credit risk

As at 31 December 2016 and 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has monitored credit limits, credit approvals and has established other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

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40. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

The Group's concentration of credit risk for its trade receivables by geographical locations is mainly in PRC (2015: PRC) in 2016, which accounted for approximately 88% (2015: 99%) of the total trade receivables.

The Group has concentration of credit risk by counterparty as approximately 11% (2015: 47%) and approximately 12% (2015: 54%) 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. The customers are mainly leading film distributor, technology companies and multinational animation producer with various different animation projects in progress. They have good repayment history with no record of late payment.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

The following table details the Group's 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 date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cash flows are estimated by using interest rate at the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows as at 31.12.2016	Carrying amount as at 31.12.2016
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31.12.2016					
Non-derivative financial liabilities					
Trade payables	–	1,266	1,160	2,426	2,426
Other payables	–	17,211	30,486	47,697	47,697
		18,477	31,646	50,123	50,123

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40. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Liquidity tables (Continued)

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows as at 31.12.2015	Carrying amount as at 31.12.2015
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31.12.2015					
Non-derivative financial liabilities					
Trade payables	–	–	2,393	2,393	2,393
Other payables	–	431	45,048	45,479	45,479
		431	47,441	47,872	47,872

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 and financial liability 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 and financial liability 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.

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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)

Financial assets/ financial liability	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique and key inputs	Relationship of unobservable inputs to fair value
Available-for-sale investment	Unlisted equity security HK$20,936,000	Unlisted equity security HK$22,444,000	Level 3	Market approach Valuation multiples of similar companies	The higher the valuation multiples, the higher the fair value
Derivative financial instrument	Derivative financial instrument: HK$16,879,000	Derivative financial instrument: HK$16,678,000	Level 3	Future income flows which are estimated based on financial performance of GDC Tech and the price adjustment formula in the sale and purchase agreement	The more the future income flows, the lower the fair value
Structured deposits	Bank deposits in the PRC with non-closely related embedded derivative: HK$19,007,000	Bank deposits in the PRC with non-closely related embedded derivative: HK$147,618,000	Level 3	Discounted cash flows	The higher the expected yield, the higher the fair value
				Future cash flows which are estimated based on observable bank interest rates 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 sensitivity analysis is presented.

Unrealised fair value gain of HK$35,000 (2015: HK$992,000) is recognised in profit or loss relating to the change in fair value of structured deposit. Fair value gain on structured deposit is included in "other gains and losses".

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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 loss of HK$201,000 (2015: HK$16,678,000) is recognised in profit or loss relating to the change in fair value of derivative financial instrument. Fair value losses on derivative financial instrument are included in "other gains and losses".

Unrealised fair value loss of HK$1,508,000 (2015: gain of HK$368,000) is recognised in other comprehensive income relating to available-for-sale investments held at the end of the current reporting period and is reported as changes of "investment revaluation reserve".

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 2016 and 2015 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group				Principal activities
				directly		indirectly		
				2016 %	2015 %	2016 %	2015 %	
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	100	–	–	Investment holding
GDC Asset Management Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Animation investment
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares	–	–	100	100	Investment holding
GDC International Limited	Incorporated	Samoa	1 ordinary share of US$1	–	–	100	100	Provision of CG animation creation and production services
GDC Management Services Limited	Incorporated	Hong Kong	2 ordinary shares	–	–	100	100	Provision of administration and management service

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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2016 %	directly 2015 %	indirectly 2016 %	indirectly 2015 %	Principal activities
Shougang GDC Media Holding Limited	Incorporated	Hong Kong	1 ordinary share	–	–	100	100	Investment holding
GDC International Limited	Incorporated	Hong Kong	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	Established	PRC	RMB10,000,000	–	–	68	68	Provision of culture, entertainment and related commercial property investment
環球數碼媒體科技(上海)有限公司	Established	PRC	US$1,300,000	–	–	100	100	Provision of CG and animation training in the PRC
環球數碼媒體科技研究(深圳)有限公司	Established	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 in the PRC
深圳市環球數碼影視文化有限公司	Established	PRC	RMB3,000,000	–	–	100	100	Animation Investment
無錫環球數碼動畫有限公司	Established	PRC	RMB500,000	–	–	100	100	Provision of CG and animation training in the PRC
上海環球數碼職業技能培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC
深圳市南山區環球數碼培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2016 %	directly 2015 %	indirectly 2016 %	indirectly 2015 %	Principal activities
廣州高尚商業經營管理有限公司	Established	PRC	RMB1,000,000	–	–	68	68	Provision of building management service in the PRC
北京風雲環球數碼傳媒技術有限公司	Established	PRC	RMB15,000,000	–	–	100	100	Provision of graphic animation creation
廣東環球數碼動畫製作有限公司	Established	PRC	RMB10,000,000	–	–	100	100	Provision of graphic animation creation
深圳市環球數碼創意科技有限公司	Established	PRC	RMB2,000,000	–	–	70	70	Provision of graphic animation creation
深圳市環球物業管理有限公司	Established	PRC	RMB1,000,000	–	–	100	100	Provision of building management service in the PRC
佛山環球數碼媒體科技有限公司	Established	PRC	RMB1,000,000	–	–	100	100	Provision of CG, animation creation and production services

The above table lists the subsidiaries of the Group 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.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non controlling interests:

Name of subsidiary	Place of establishment	Principal activities	Proportion of ownership interests and voting rights held by non-controlling interests 2016 %	2015 %	(Loss) profit allocated to non-controlling interests 2016 *HK$'000*	2015 *HK$'000*	Accumulated non-controlling interests 2016 *HK$'000*	2015 *HK$'000*
廣東環球數碼創意產業有限公司	PRC	Provision of culture, entertainment and related commercial property investment	32	32	(31,881)	9,490	18,737	52,744
Individually immaterial subsidiaries with non-controlling interests							(578)	667
							18,159	53,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

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 Shougang GDC Media Holding Limited, a wholly owned subsidiary of the Group. 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 shareholding and the relative size of the shareholdings owned by the other shareholder.

Summarised financial information in respect of a Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Guangdong Cultural Park	**2016**	2015
	HK$'000	*HK$'000*
Current assets	**17,522**	22,024
Non-current assets	**429,217**	550,517
Current liabilities	**(349,966)**	(366,204)
Non-current liabilities	**(38,220)**	(41,516)
Equity attributable to owners of the Company	**39,816**	112,077
Non-controlling interests	**18,737**	52,744
Revenue	**44,060**	46,123
Impairment loss on investment properties	**(84,467)**	–
Decrease in fair value of investment properties	**–**	(4,069)
Write-off of construction deposit	**(23,310)**	–
Expenses	**(35,912)**	(12,399)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Guangdong Cultural Park	2016 HK$'000	2015 HK$'000
(Loss) profit for the year	**(99,629)**	29,655
(Loss) profit attributable to owners of the Company	**(67,748)**	20,165
(Loss) profit attributable to the non-controlling interests	**(31,881)**	9,490
(Loss) profit for the year	**(99,629)**	29,655
Other comprehensive expenses attributable to owners of the Company	**(4,513)**	(5,045)
Other comprehensive expenses attributable to the non-controlling interests	**(2,126)**	(2,374)
Other comprehensive expenses for the year	**(6,639)**	(7,419)
Total comprehensive (expenses) income attributable to owners of the Company	**(72,261)**	15,121
Total comprehensive (expenses) income attributable to the non-controlling interests	**(34,007)**	7,115
Total comprehensive (expenses) income for the year	**(106,268)**	22,236
Net cash inflow from operating activities	**2,528**	33,701
Net cash outflow from investing activities	**(11,185)**	(15,435)
Net cash inflow (outflow) from financing activities	**7,453**	(15,888)
Net cash (outflow) inflow	**(1,204)**	2,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. LITIGATIONS

As at 31 December 2016, the Group has the following litigations:

(a) On 11 April 2016, Guangdong Cultural Park received a notice of respondence to action (應訴通知書) (the "Notice of Respondence to Action") from the Guangzhou Intermediate People's Court dated 6 April 2016. It was set out in the Notice of Respondence to Action that Pearl River Film Production as the plaintiff (the "Plaintiff") has initiated legal proceedings against Guangdong Cultural Park in respect of an Alleged Breach. The Plaintiff has demanded to terminate the Framework Agreement and claimed, among others, for compensation of damages in the form of economic loss in the amount of approximately RMB75,779,000 resulting from the Alleged Breach.

On 19 April 2016, pursuant to the application from the Plaintiff, the Guangzhou Intermediate People's Court granted an order to preserve the bank deposit of Guangdong Cultural Park's bank account at Industrial and Commercial Bank of China ("Bank Account"). The Bank Account was frozen on 6 May 2016. As at 31 December 2016, the restricted bank deposit amounted to approximately HK$17,797,000.

The first court hearing commenced on 24 May 2016 and the second court hearing was held on 3 June 2016. At the second court hearing, the Guangzhou Intermediate People's Court permitted the parties to attempt settlement negotiations for one month. On 30 June 2016, the PRC legal advisors of Guangdong Cultural Park sought an extension of the settlement negotiations period until 3 August 2016. On 2 August 2016, the PRC legal advisors of Guangdong Cultural Park has sought a further extension of the settlement negotiations period for one month.

In light of the above legal proceedings, Guangdong Cultural Park denied the Plaintiff's accusations and the responsibility of the Alleged Breach and filed a counterclaim against the Plaintiff to demand the Plaintiff to continue to execute the Framework Agreement and to compensate Guangdong Cultural Park's damages in the form of economic loss which is amounted to RMB100,000,000. On 26 May 2016, the Guangzhou Intermediate People's Court accepted the counterclaim filing by the Guangdong Cultural Park against the Plaintiff. The first hearing of the counterclaim was held on 2 August 2016. On 2 August 2016, the PRC legal advisors of Guangdong Cultural Park sought a further extension of the settlement negotiations period for one month.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. LITIGATIONS *(Continued)*

(a) *(Continued)*

On 17 October 2016, Guangdong Cultural Park received a Civil Judgment from the Guangzhou Intermediate People's Court dated 11 October 2016. According to the Civil Judgment, the Guangzhou Intermediate People's Court declared that the Framework Agreement was terminated as of 22 March 2016. The Civil Judgment also stated that Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 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 construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production were dismissed and the counterclaim made by Guangdong Cultural park was dismissed.

In November 2016, Guangdong Cultural Park has lodged an appeal with the Guangzhou Intermediate People's Court urging for an order that the civil judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs which was accepted by Higher People's Court of Guangdong Province of the PRC (中國廣東省高級人民法院) on 9 February 2017. The first court hearing of the Appeal will be commenced on 30 March 2017. As at the date of approval of these consolidated financial statements, the Appeal is still in progress and no conclusion has been reached, whilst the completed properties of the Pearl River Film Cultural Park is currently still operated by Guangdong Cultural Park.

(b) On 16 June 2016, two of the Company's indirect wholly-owned subsidiaries in the PRC, namely 環球數碼媒體科技研究(深圳)有限公司("IDMT (Shenzhen)"), 深圳市環球數碼影視文化有限公司 and the Company's indirect non-wholly owned subsidiary, 深圳市環球數碼創意科技有限公司, (collectively, the "Defendants"), received the same notice of respondence to action No. 610 (應訴通知書編號610) (the "Notice of Respondence to Action No. 610") from Intermediate People's Court of Shenzhen City of Guangdong Province in the PRC (中國廣東省深圳市中級人民法院) (the "Shenzhen Intermediate People's Court") dated 15 June 2016 together with a civil complaint No. 610 (民事起訴狀編號 610) (the "Civil Complaint No. 610") issued by The Foundry Visionmongers Ltd. ("Foundry"). It was set out in the Civil Complaint No. 610 that Foundry has initiated legal proceedings against the Defendants in respect of infringement of Foundry's computer software copyrights including making unauthorised copies, installation and for commercial use of certain software application at its place of business. Foundry has claimed for, among others, damages in the form of economic loss in the aggregate amount of RMB5,000,000.

On the same day, 深圳市南山區環球數碼培訓學校 (the "Training School") operated by IDMT (Shenzhen) also received a notice of respondence to action No. 611 (應訴通知書編號 611) (the"Notice of Respondence to Action No. 611") from the Shenzhen Intermediate People's Court dated 15 June 2016 together with a civil complaint No. 611 (民事起訴狀編號 611) (the "Civil Complaint No. 611") issued by Foundry. It was set out in the Civil Complaint No. 611 that Foundry has initiated legal proceedings against the Training School in respect of infringement of the Foundry's computer software copyrights including unauthorised use of certain software applications in commercial training. Foundry has claimed for, among others, damages in the form of economic loss in the aggregate amount of RMB5,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. LITIGATIONS *(Continued)*

(b) *(Continued)*

The Group filed its response in June 2016 denying Foundry's allegations in the Notices of Respondence to Action No. 610 and 611 and asserting various affirmative defences and the calculations on the claimed amounts were without sufficient basis.

On 9 August 2016, the Company has made an announcement that the PRC legal advisor of the Defendants and the Training School was informed by the Shenzhen Intermediate People's Court that Foundry has filed an application to withdraw the claims under the Civil Complaint No. 610 and Civil Complaint No. 611. On 25 August 2016, the Company received the Civil Ruling (民事裁定書) of Civil Complaint No.610 and Civil Complaint No.611 respectively from the Shenzhen Intermediate People's Court, permitting the withdrawal of proceedings on Civil Complaint No.610 and Civil Complaint No.611.

Accordingly, no provision for the litigation is required in the consolidated financial statements.

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016	2015
	HK$'000	*HK$'000*
Non-current asset		
Investment in a subsidiary	**–**	–
Current assets		
Prepayment, deposits and other receivables	**289**	317
Bank balances and cash	**926**	482
	1,215	799
Current liability		
Other payables and accruals	**910**	653
Net current assets	**305**	146
Net assets	**305**	146
Capital and deficit		
Share capital	**15,183**	15,183
Deficit	**(14,878)**	(15,037)
Total equity	**305**	146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

Movement in the Company's reserves

	Share premium reserve	Contributed surplus reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	75,856	215,102	(307,243)	(16,285)
Profit and total comprehensive income for the year	–	–	1,248	1,248
At 31 December 2015	75,856	215,102	(305,995)	(15,037)
Profit and total comprehensive income for the year	–	–	159	159
At 31 December 2016	75,856	215,102	(305,836)	(14,878)

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
Revenue	111,022	160,720	204,404	181,664	**146,759**
Profit (loss) from operations	141,441	42,091	44,987	27,730	**(89,692)**
Finance costs	(11,353)	(8,993)	(6,761)	(2,559)	**–**
Profit (loss) before tax	130,088	33,098	38,226	25,171	**(89,692)**
Income tax expense	(41,057)	(9,813)	(5,607)	(4,986)	**(5,602)**
Profit (loss) for the year	89,031	23,285	32,619	20,185	**(95,294)**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
Total assets	1,290,539	1,305,721	1,279,906	1,147,370	**996,785**
Total liabilities	(331,047)	(303,480)	(240,166)	(150,125)	**(151,559)**
Net assets	959,492	1,002,241	1,039,740	997,245	**845,226**

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. 352 and 354, Xin Gang Zhong Road Guangzhou the People's Republic of China	Commercial	Medium	68%
Building			
No. 9, Gaoxin Central Avenue 3rd Nanshan District, Shenzhen the People's Republic of China	Commercial	Medium	100%