



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)



2019

FIRST QUARTERLY REPORT

**For identification purpose only*

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This report, for which the directors (the “Director(s)”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. Cheng Xiaoyu (*Chairman and Managing Director*)
Mr. Jin Guo Ping (*Deputy Managing Director*)
Mr. Xu Liang

Non-executive Director

Mr. Chen Zheng (*Deputy Chairman*)

Independent Non-executive Directors

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

Executive Committee

Ms. Cheng Xiaoyu (*Chairman*)
Mr. Jin Guo Ping
Mr. Xu Liang

Audit Committee

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

Nomination Committee

Ms. Cheng Xiaoyu (*Chairman*)
Mr. Xu Liang
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)
Ms. Cheng Xiaoyu (*Vice Chairman*)
Mr. Xu Liang
Mr. Kwong Che Keung, Gordon
Mr. Lam Yiu Kin

Compliance Officer

Ms. Cheng Xiaoyu

Company Secretary

Ms. Kam Man Yi, Margaret

CORPORATE INFORMATION *(Continued)*

Authorised Representatives	Ms. Cheng Xiaoyu Ms. Kam Man Yi, Margaret
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
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

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) is pleased to report the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2019 with comparative figures for the corresponding period in the year 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

		Three months ended 31 March	
		2019	2018
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
Continuing operations			
Revenue	3		
Goods and services		5,960	6,101
Rental		11,977	11,446
Total revenue		17,937	17,547
Cost of sales and services		(7,923)	(19,089)
Gross profit (loss)		10,014	(1,542)
Other income	4	4,596	5,728
Other gains	5	379	721
Distribution costs and selling expenses		(560)	(651)
Administrative expenses		(8,077)	(9,202)
Other expenses		(3,841)	–
Profit (loss) before tax		2,511	(4,946)
Income tax (expense) credit	6	(2,298)	14
Profit (loss) for the period from continuing operations		213	(4,932)
Discontinued operations			
Profit for the period from discontinued operations	7	–	4,135
Profit (loss) for the period		213	(797)
Other comprehensive income for the period:			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		7,899	34,417
Total comprehensive income for the period		8,112	33,620

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	Three months ended 31 March	
	2019	2018
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Profit (loss) for the period attributable to owners of the Company:		
– from continuing operations	1,564	(4,872)
– from discontinued operations	–	2,616
	1,564	(2,256)
(Loss) profit for the period attributable to non-controlling interests:		
– from continuing operations	(1,351)	(60)
– from discontinued operations	–	1,519
	(1,351)	1,459
	213	(797)
Total comprehensive income (expenses) for the period attributable to:		
Owners of the Company	12,907	31,080
Non-controlling interests	(4,795)	2,540
	8,112	33,620
	<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share	8	
From continuing and discontinued operations		
Basic	0.1	(0.15)
From continuing operations		
Basic	0.1	(0.32)

NOTES:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated statement of profit or loss and other comprehensive income has been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current period, the Group has applied, for the first time, certain new and amendments to Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2019. The application of the new and amendments to HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

3. REVENUE

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

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
		(Restated)
Goods and services		
Revenue from computer graphic ("CG") production	1,901	1,913
Revenue from television series and movies	1,084	1,170
Management service fee	2,975	3,018
	5,960	6,101
Rental income	11,977	11,446
Total revenue	17,937	17,547

4. OTHER INCOME

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
		(Restated)
Continuing operations		
Interest income	1,484	1,497
Government grants	3,101	4,126
Others	11	105
	<u>4,596</u>	<u>5,728</u>

5. OTHER GAINS

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
		(Restated)
Continuing operations		
Gain on disposal of equipment	136	—
Increase in fair value of structured deposits	243	721
	<u>379</u>	<u>721</u>

6. INCOME TAX EXPENSE (CREDIT)

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
		(Restated)
Continuing operations		
PRC Enterprise Income Tax ("EIT"):		
Current tax	2,310	—
Deferred tax	(12)	(14)
	<u>2,298</u>	<u>(14)</u>

6. INCOME TAX EXPENSE (CREDIT) (Continued)

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for both periods 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 subsidiaries in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) is 25% from 1 January 2008 onwards, except for those subsidiaries described below.

According to the Circular of the State Administration of Taxation on the issues concerning implementation of the preferential income tax for hi-tech enterprise (Guoshui Han [2009] No. 203), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 2017 to 2020 as it is qualified as hi-tech enterprise. For the three months ended 31 March 2019, the relevant tax rates for the Group's subsidiaries in the PRC was ranged from 15% to 25% (three months ended 31 March 2018: 15% to 25%).

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

7. DISCONTINUED OPERATIONS

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

The comparative figures in the unaudited condensed consolidated statement of profit or loss and other comprehensive income have been restated to classify the results of these operations as discontinued operations.

7. DISCONTINUED OPERATIONS *(Continued)*

The combined results of the discontinued operations for the three months ended 31 March 2018 were as follows:

	<i>HK\$'000</i>
Revenue	
Services	2,830
Rental	10,554
	<hr/>
Total revenue	13,384
Cost of services	(3,652)
	<hr/>
Gross profit	9,732
Other income	4
Distribution costs and selling expenses	(63)
Administrative expenses	(4,533)
Other losses	(671)
	<hr/>
Profit before tax	4,469
Income tax expenses	(334)
	<hr/>
Profit for the period from discontinued operations	4,135
	<hr/>

8. EARNINGS (LOSS) PER SHARE

From continuing operations

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

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Earnings (loss)		
Profit (loss) for the period attributable to owners of the Company for the purposes of basic earnings (loss) per share	1,564	(2,256)
Less:		
Profit for the period from discontinued operations	<u>—</u>	<u>2,616</u>
Earnings (loss) for the purpose of basic earnings (loss) per shares from continuing operations	<u>1,564</u>	<u>(4,872)</u>
	'000	'000

Number of shares

Number of ordinary shares for the purposes of
basic earnings (loss) per share

1,518,256	<u>1,518,256</u>
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No diluted earnings (loss) per share for the three months ended 31 March 2019 and 2018 were presented as there were no potential ordinary shares in issue for the three months ended 31 March 2019 and 2018.

From continuing and discontinued operations

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

	Three months ended 2019	
	2019	2018
	HK\$'000	HK\$'000
Profit (loss) for the period attributable to owners of the Company for the purposes of basic earnings (loss) per share	1,564	(2,256)

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

From discontinued operations

For the three months ended 31 March 2018, the basic earnings per share attributable to owners of the Company from discontinued operations was HK0.17 cents, based on the profit for the period attributable to owners of the Company from discontinued operations of HK\$2,616,000 and the denominators detailed above for basic earnings (loss) per share.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital HK\$'000	Share premium reserve HK\$'000	Capital contribution reserve HK\$'000	Contributed surplus reserve HK\$'000	Statutory reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000		
At 1 January 2019	15,183	75,856	445	245,881	6,635	45,787	(22,385)	(1,209)	68,228	434,421	(123,586)	310,835
Profit (loss) for the period	-	-	-	-	-	-	-	-	1,564	1,564	(1,351)	213
Exchange differences on translation to presentation currency	-	-	-	-	-	-	11,343	-	-	11,343	(3,444)	7,899
Other comprehensive income (expenses) for the period	-	-	-	-	-	-	11,343	-	-	11,343	(3,444)	7,899
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	11,343	-	1,564	12,907	(4,795)	8,112
At 31 March 2019	15,183	75,856	445	245,881	6,635	45,787	(11,042)	(1,209)	69,792	447,328	(128,381)	318,947
At 1 January 2018	15,183	75,856	445	245,881	4,462	-	17,653	(1,209)	492,402	860,673	25,062	875,755
(Loss) profit for the period	-	-	-	-	-	-	-	-	(2,256)	(2,256)	1,459	(797)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	33,336	-	-	33,336	1,081	34,417
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	33,336	-	(2,256)	31,080	2,540	33,620
At 31 March 2018	15,183	75,856	445	245,881	4,462	-	50,989	(1,209)	490,146	881,753	27,622	909,375

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2019, the Group recorded a profit attributable to owners of the Company of HK\$1,564,000 as a whole, representing an increase of HK\$3,820,000 in profit as compared with the loss attributable to owners of the Company of HK\$2,256,000 for the corresponding period of last year. The Group's Cultural Park and CG training divisions were classified as discontinued operations at the end of 2018. For the first quarter of 2018, profit attributable to owners of the Company from these discontinued operations was HK\$2,616,000 and the loss attributable to owners of the Company from the continuing operations was HK\$4,872,000.

Revenue from the continuing operations for the three months ended 31 March 2019 amounted to HK\$17,937,000, representing a slight increase of HK\$390,000 as compared with HK\$17,547,000 for the corresponding period of last year, which was mainly attributable to the increase in rental income of the properties in Shenzhen.

Cost of sales and services from the continuing operations for the three months ended 31 March 2019 amounted to HK\$7,923,000, representing a decrease of HK\$11,166,000 as compared with HK\$19,089,000 for the corresponding period of last year, which was mainly attributable to (1) the absence of recognition of the amortized programme costs of an original film and provision for impairment for the programme cost of television series for the three months ended 31 March 2019 (whereas such recognition of the amortized programme costs and provision for impairment for the programme cost were recorded for the corresponding period in 2018); and (2) the decrease in provision for depreciation and amortization of prepaid lease payments (as the properties in Shenzhen were changed to be stated at fair value at the end of 2018).

Other income from the continuing operations for the three months ended 31 March 2019 amounted to HK\$4,596,000, representing a decrease of HK\$1,132,000 as compared with HK\$5,728,000 for the corresponding period of last year, which was mainly attributable to the decrease in government grants of HK\$1,025,000 during the period.

Other gains from the continuing operations for the three months ended 31 March 2019 were HK\$379,000 (three months ended 31 March 2018: HK\$721,000), mainly representing an increase in fair value of structured deposits.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Distribution costs and selling expenses from the continuing operations for the three months ended 31 March 2019 amounted to HK\$560,000, representing a decrease of HK\$91,000 as compared with HK\$651,000 for the corresponding period of last year.

Administrative expenses from the continuing operations for the three months ended 31 March 2019 amounted to HK\$8,077,000 (three months ended 31 March 2018: HK\$9,202,000). The decrease was mainly attributable to a decrease in depreciation and amortization expenses as well as staff costs.

Other expenses for the three months ended 31 March 2019 amounted to HK\$3,841,000, being the running costs of the Pearl River Film Cultural Park of HK\$2,382,000 incurred by the Group to maintain the on-going operations of the Pearl River Film Cultural Park and provision of interest of HK\$1,459,000 for the first quarter of 2019 on accrued rental of the Pearl River Film Cultural Park as of 31 March 2019.

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

The revenue of the CG creation and production division of the Group was mainly generated from production services of animated films and television series, box office receipts and copyrights of original animated films, copyrights of animated television series and businesses derived from animation brands.

In the first quarter of 2019, the animated film production projects undertaken by our CG creation and production division mainly came from China, including the full production process of two animated television series. Our CG creation and production division also started the intermediate production of a new animated television series. For original film and television series projects, the graphic production of “Happy Little Submarine: Space Pals”, the seventh film of the “Happy Little Submarine” series, has been completed and is expected to be screened in China during the “1 June” International Children’s Day 2019 time slot. The division has also prepared for a military-themed animated film of “Smart Shunliu” series. In addition, the original sci-fi animation series, “星際車神”, co-invested and co-produced last year by the division and a sizable PRC company that is experienced in intellectual toys is still in progress.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production *(Continued)*

The construction of Foshan Digital Animation Industry Base* (佛山數碼動漫產業基地) was accelerated, and the intermediate production team has begun to share the production of animated films and television films with the Shenzhen division, generating synergies for production. Subsequently, a production team of appropriate scale was established in accordance with the development needs of our creation and production business in order to enhance our competitive advantages in the industry. At the same time, the entrepreneur incubation space model has also been established, and the cooperation team in the animation industry was introduced to promote industry chain clustering collaboration. After entering into a cooperation agreement with the independent third parties in December 2018, the division has received cash contribution in the amount of RMB20,000,000 in aggregate, and as provided under the cooperation agreement, the contracting parties agreed to respectively contribute properties and cash for 10% and 5% of equity interest in Foshan Global Digital Media Technology Co., Ltd.* (佛山環球數碼媒體科技有限公司), an indirect wholly-owned subsidiary of the Company, and the issuance of the equity interest to the contracting parties will be subject to the issuance of the title certificate of the relevant properties. Please refer to the announcement of the Company dated 17 December 2018 for details of the cooperation agreement.

The division continued to invest resources in technology research and development, and significantly improved the technology such as scene effect realization, animated character performance, and fantasy visual effects. In addition, with the self-developed full-process computer image creation and animation management database system, a cross-regional multi-team collaboration platform was established.

In terms of intellectual property protection, the division completed three applications for computer software works in the first quarter of this year and has obtained the relevant certificates. According to the derivatives business authorization application plan, valid registration will be processed for the stories and images created by the division to ensure copyright protection.

In the first quarter of 2019, the division proactively participated in various marketing activities, including "The 17th Hong Kong International Licensing Show (HKILS)", "The 45th Hong Kong Toys & Games Fair", "The 23rd Hong Kong International Film & TV Market (FILMART)", "The China Food & Drinks Fair" in Chengdu, in order to enhance the influence of original IP brands and promote resource cooperation.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production *(Continued)*

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

Property Leasing and Building Management Services

In the first quarter of 2019, the consolidated income from the GDC Building (the “Shenzhen Building”) of the Group located in Shenzhen amounted to HK\$14,952,000, representing an slight increase by 3% as compared with the corresponding period of last year. The division placed high priority on the management and maintenance of the property and its supporting facilities, equipment and related sites, therefore equipment was inspected regularly. Job satisfaction survey was conducted on tenants, with satisfaction rate of 94% in the first quarter. As Shenzhen Building being the sub-venue of the 15th China (Shenzhen) International Cultural Industries Fair in May this year, in the first quarter, the division has made preparations for submissions to the relevant departments according to the relevant requirements. The division will continue to improve the standard of property management in the future, enhance tenant satisfaction and expects to bring sustained and stable income and cash flow to the Group.

LITIGATIONS

On 16 March 2018, Guangdong Cultural Park received a civil judgment (the “Higher Court Civil Judgment”) from the Higher People’s Court of Guangdong Province of the PRC (中國廣東省高級人民法院) (the “Guangdong Higher People’s Court”), which rejected the appeal lodged in November 2016 and upheld the original decision. Details of the litigation are set out in the announcements of the Company dated 12 April 2016, 21 October 2016, 16 December 2016 and 20 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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

Following the receipt of the Higher Court Civil Judgment, the management met with the representatives of Pearl River Film Production for preliminary discussion on 27 March 2018. During the meeting, the representatives of Pearl River Film Production indicated that they expected Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park, i.e. the undeveloped land, as soon as possible, before further discussion on the future arrangement of Phase I of the Pearl River Film Cultural Park, i.e. the completed properties. After the meeting, the management and all shareholders of Guangdong Cultural Park met with the PRC legal advisor on 3 April 2018 for legal advice. The PRC legal advisor recommended negotiating the overall arrangement of the Pearl River Film Cultural Park (both Phase I and Phase II) as a package, which all shareholders agreed and accepted. The management met with the representatives of Pearl River Film Production for the second time on 17 April 2018. At the meeting, the management presented its proposal of discussion as a package to the representatives of Pearl River Film Production and indicated its hope to reach a consensus as soon as possible in respect of continuing operation of Phase I of the Pearl River Film Cultural Park. However, Pearl River Film Production still insisted Guangdong Cultural Park to return the land of Phase II of the Pearl River Film Cultural Park first before discussing related terms. After several discussions, the division returned a portion of the Pearl River Film Cultural Park, which had been used as parking space, to Pearl River Film Production in June 2018 and continued to negotiate with Pearl River Film Production for the overall arrangement of Phase I and Phase II of the Pearl River Film Cultural Park to express the sincerity of the Company for continuing operation of Phase I of the Pearl River Film Cultural Park.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from the legal representatives of Pearl River Film Production demanding the delivery of the relevant properties of the Pearl River Film Cultural Park and claimed for compensation of related occupation fees and economic loss totaling to approximately RMB143,076,000 (equivalent to approximately HK\$169,521,000). Since then, Guangdong Cultural Park has conducted a series of negotiations with Pearl River Film Production, including the submission of written proposals to Pearl River Film Production.

In September 2018, the corresponding appeal period for the Higher Court Civil Judgment received on 16 March 2018 was lapsed.

At the end of November 2018, Pearl River Film Production attempted to seize Phase I of the Pearl River Film Cultural Park without the consent of the Group. After considering the attitude of Pearl River Film Production and uncertainties of the operating terms of Phase I of the Pearl River Film Cultural Park, the Group decided to derecognise Phase I of the Pearl River Film Cultural Park as investment properties and recognised a loss on derecognition of investment properties of Phase I of the Pearl River Film Cultural Park which amounted to HK\$411,412,000. The Group has also ceased recognising all revenue derived from the Pearl River Film Cultural Park from 1 December 2018. In view of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Cultural Park operation was classified as discontinued operations with effect from 1 December 2018. Accordingly, the results of the Cultural Park operation for the year ended 31 December 2018 have been separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

Notwithstanding any of the above decision, the Board would like to emphasize that it did not represent the Group's intention to give up any of its rights and legitimate interests in the Pearl River Film Cultural Park. Guangdong Cultural Park remains committed to continue the negotiation with Pearl River Film Production and finalize the operating terms of Phase I of the Pearl River Film Cultural Park or reasonable investment compensation in order to protect its rights and legitimate interests in the Pearl River Film Cultural Park. For the first quarter of year 2019, Guangdong Cultural Park received rental income and management fee of HK\$10,222,000 in relation to the discontinued operations which were fully provided for as accrued rental payable. In addition, interest expenses of HK\$1,459,000 were provided for the first quarter of 2019 in relation to the accrued rental payable for Phase I of the Pearl River Film Cultural Park. As at 31 March 2019, the Group has provided for the accrued rental and settlement payables amounted to HK\$144,102,000 (31 December 2018: HK\$128,800,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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

On 3 April and 4 April 2019, Guangdong Cultural Park received two summons (the “Summons I” and the “Summons II”) dated 3 April 2019 from the People’s Court of Haizhu District of Guangzhou City of the PRC (中國廣州市海珠區人民法院) (the “People’s Court of Haizhu District”) and the Guangzhou Intermediate People’s Court respectively. According to Summons I, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and has pleaded for a court order to require Guangdong Cultural Park to return the entire Pearl River Film Cultural Park and its facilities and related documents. According to Summons II, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and claimed for property occupation fee of the Pearl River Film Cultural Park and related interest (which Pearl River Film Production estimated to be in the amounts of RMB148,745,800 and RMB9,593,000 as of 22 March 2019, respectively) to be paid by Guangdong Cultural Park. On 8 April 2019, each of Guangdong Cultural Park and 廣州高尚商業經營管理有限公司 (“Gaoshang Property Management”) received a summons (the “Summons III”) dated 4 April 2019 from the People’s Court of Haizhu District. According to Summons III, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and Gaoshang Property Management and claimed for property occupation fee of certain parking spaces of the Pearl River Film Cultural Park in the amount of RMB26,457,900 and related interest (which Pearl River Film Production estimated to be in the amount of RMB2,520,061.95 as of 27 March 2019).

In around mid April 2019, Guangdong Cultural Park and Gaoshang Property Management were informed by the People’s Court of Haizhu District that in relation to the legal proceedings under Summons III, the court has granted an order to allow Pearl River Film Production’s application to preserve the two bank accounts of Guangdong Cultural Park and Gaoshang Property Management. The accounts were used by the respective companies for cash receipts and payments in relation to the Pearl River Film Cultural Park and as at the date of this report, the aggregate deposits in the two bank accounts amounted to approximately RMB4,400,000.

The management has been seeking legal advice on the above summons. Should there be any significant updates, the Company will make timely disclosure on both the Stock Exchange’s website and the Company’s website.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2019.

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

As at 31 March 2019, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

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

Save as disclosed above, as at 31 March 2019, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the three months ended 31 March 2019 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2019, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

LONG POSITIONS IN THE SHARES OF THE COMPANY

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

Note: Upper Nice is a wholly-owned subsidiary of Shougang Holding which is in turn wholly-owned by Shougang Group. Accordingly, all these corporations are deemed to be interested in the share capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 31 March 2019, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2019, 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules throughout the three months ended 31 March 2019, except for a deviation from the code provision A.2.1 of the CG Code.

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

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2019.

AUDIT COMMITTEE

The Group’s first quarterly results for the three months ended 31 March 2019 were unaudited. The Company’s audit committee together with the management have reviewed the unaudited first quarterly results of the Group for the three months ended 31 March 2019.

APPRECIATION

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

By Order of the Board
Cheng Xiaoyu
Chairman and Managing Director

Hong Kong, 9 May 2019