



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)

2017

THIRD QUARTERLY REPORT

* 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.

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Xu Liang (*Chairman*) (*appointed on 14 June 2017*)
Mr. Li Shaofeng (*Chairman*) (*resigned on 14 June 2017*)
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. Xu Liang (*Chairman*) (*appointed on 14 June 2017*)
Mr. Li Shaofeng (*Chairman*) (*resigned on 14 June 2017*)
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. Xu Liang (*Chairman*) (*appointed on 14 June 2017*)
Mr. Li Shaofeng (*Chairman*) (*resigned on 14 June 2017*)
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. Xu Liang (*Vice Chairman*) (*appointed on 14 June 2017*)
Mr. Li Shaofeng (*Vice Chairman*) (*resigned on 14 June 2017*)
Mr. Leung Shun Sang, Tony
Mr. Kwong Che Keung, Gordon
Mr. Lam Yiu Kin

CORPORATE INFORMATION *(Continued)*

| | |
|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 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 | 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 |

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2017 with comparative figures for the corresponding periods in the year 2016.

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

For the nine months ended 30 September 2017

| | NOTES | Three months ended 30 September | | Nine months ended 30 September | |
|---------------------------------------------------------------------------------------------------------------|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | 3 | 40,610 | 39,325 | 101,286 | 112,607 |
| Cost of sales | | (39,072) | (20,379) | (68,050) | (59,879) |
| Gross profit | | 1,538 | 18,946 | 33,236 | 52,728 |
| Other income | 4 | 1,944 | 3,310 | 6,431 | 12,232 |
| Distribution costs and selling expenses | | (17,196) | (994) | (20,083) | (2,799) |
| Administrative expenses | | (13,827) | (16,618) | (41,257) | (52,388) |
| Other gains and losses | 5 | 1,039 | (23,922) | 331 | (23,660) |
| Impairment loss on investment property | | - | (85,463) | - | (85,463) |
| Share of result of an associate | | (24) | - | (24) | - |
| Loss before tax | | (26,526) | (104,741) | (21,366) | (99,350) |
| Income tax expense | 6 | 714 | (1,454) | (524) | (5,170) |
| Loss for the period | | (25,812) | (106,195) | (21,890) | (104,520) |
| Other comprehensive income (expenses): | | | | | |
| Item that will not be reclassified to profit or loss: | | | | | |
| Exchange differences on translation of financial statements from functional currency to presentation currency | | 14,634 | (1,604) | 39,919 | (21,598) |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Decrease in fair value of available-for-sale investment | | - | - | (20,936) | (3,210) |
| Cumulative loss reclassified to profit or loss on disposal of available-for-sale investment | | - | - | 16,879 | - |
| | | - | - | (4,057) | (3,210) |
| Other comprehensive income (expenses) for the period | | 14,634 | (1,604) | 35,862 | (24,808) |
| Total comprehensive (expenses) income for the period | | (11,178) | (107,799) | 13,972 | (129,328) |

| | NOTE | Three months ended 30 September | | Nine months ended 30 September | |
|-----------------------------------------------------------------------|------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| (Loss) profit for the period attributable to: | | | | | |
| Owners of the Company | | (27,183) | (71,820) | (26,271) | (71,085) |
| Non-controlling interests | | 1,371 | (34,375) | 4,381 | (33,435) |
| | | (25,812) | (106,195) | (21,890) | (104,520) |
| Total comprehensive (expenses) income for the period attributable to: | | | | | |
| Owners of the Company | | (12,972) | (73,720) | 8,506 | (94,968) |
| Non-controlling interests | | 1,794 | (34,079) | 5,466 | (34,360) |
| | | (11,178) | (107,799) | 13,972 | (129,328) |
| | | HK cents | HK cents | HK cents | HK cents |
| Loss per share: | | | | | |
| Basic | 7 | (1.79) | (4.73) | (1.73) | (4.68) |

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated statement of profit or loss and other comprehensive income have been prepared in accordance with applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current period.

3. REVENUE

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

| | Three months ended | | Nine months ended | |
|-----------------------------------------------------------------------------------|--------------------|---------------|-------------------|----------------|
| | 30 September | | 30 September | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from contracts for computer graphic ("CG") creation and production (Note) | 12,814 | 12,501 | 21,516 | 33,990 |
| Rental and building management service fee income | 25,735 | 24,815 | 74,910 | 73,455 |
| CG training fee | 2,061 | 2,009 | 4,860 | 5,162 |
| | 40,610 | 39,325 | 101,286 | 112,607 |

Note: During the nine months ended 30 September 2017, an amount of approximately HK\$14,339,000 was attributable to revenue from the release of two animated films based on an agreed sharing percentage of the box office receipts. No animated film has been released during the nine months ended 30 September 2016.

4. OTHER INCOME

| | Three months ended | | Nine months ended | |
|-------------------|--------------------|--------------|-------------------|---------------|
| | 30 September | | 30 September | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income | 1,553 | 1,354 | 4,329 | 3,489 |
| Government grants | 343 | 1,922 | 1,985 | 8,650 |
| Others | 48 | 34 | 117 | 93 |
| | 1,944 | 3,310 | 6,431 | 12,232 |

5. OTHER GAINS AND LOSSES

| | Three months ended | | Nine months ended | |
|---------------------------------------------------------------------------------------------------------|--------------------|-----------------|-------------------|-----------------|
| | 30 September | | 30 September | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cumulative loss reclassified from equity to profit or loss on disposal of available-for-sale investment | - | - | (16,879) | - |
| Gain (loss) on fair value changes of derivative financial instrument | - | - | 16,879 | (201) |
| Changes in fair value of structured deposits | 151 | (138) | 448 | 302 |
| Loss on disposal of property, plant and equipment | - | (200) | - | (177) |
| Allowance for doubtful debt | 888 | - | (117) | - |
| Write-off of construction deposit | - | (23,584) | - | (23,584) |
| | 1,039 | (23,922) | 331 | (23,660) |

6. INCOME TAX EXPENSE

| | Three months ended | | Nine months ended | |
|------------------------------------|--------------------|--------------|-------------------|--------------|
| | 30 September | | 30 September | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| PRC Enterprise Income Tax ("EIT"): | | | | |
| Current tax | (718) | 1,497 | 685 | 5,472 |
| Under provision in prior years | – | – | 8 | 42 |
| Deferred tax | 4 | (43) | (169) | (344) |
| | <u>4</u> | <u>(43)</u> | <u>(169)</u> | <u>(344)</u> |
| Income tax expense | <u>(714)</u> | <u>1,454</u> | <u>524</u> | <u>5,170</u> |

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 since the Group had no assessable profit arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Rules of the EIT Law, the EIT rate of the Group's 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 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%. 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. The tax concession has expired in 2016. 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 nine months ended 30 September 2017, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (nine months ended 30 September 2016: 12.5% 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 from other jurisdictions.

7. LOSS PER SHARE

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

| | Three months ended | | Nine months ended | |
|----------------------------------------------------------------------------------------------------------|--------------------|-----------|-------------------|-----------|
| | 30 September | | 30 September | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loss | | | | |
| Loss for the period attributable to owners of the Company for the purposes of basic loss per share | (27,183) | (71,820) | (26,271) | (71,085) |
| | '000 | '000 | '000 | '000 |
| Number of shares | | | | |
| Number of ordinary shares in issue for purposes of basic loss per share | 1,518,256 | 1,518,256 | 1,518,256 | 1,518,256 |

No diluted loss per share have been presented for both periods as there were no potential ordinary shares in issue.

8. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | | | | Non-controlling interests | Total |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------|----------------------|---------------------|-------------------|--------------------------------|------------------|-----------------|-------------------|-----------|----------|---------------------------|-------|
| | Share capital | Share premium | Capital contribution | Contributed surplus | Statutory reserve | Investment revaluation reserve | Exchange reserve | Special reserve | Retained earnings | Sub-total | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 1 January 2017 (audited) | 15,183 | 75,856 | 445 | 245,881 | 4,316 | 4,057 | (39,305) | (1,209) | 521,843 | 827,067 | 18,159 | 845,226 | |
| (Loss) profit for the period | - | - | - | - | - | - | - | - | (26,271) | (26,271) | 4,381 | (21,890) | |
| Exchange differences on translation of financial statements from functional currency to presentation currency | - | - | - | - | - | - | 38,834 | - | - | 38,834 | 1,085 | 39,919 | |
| Decrease in fair value of available-for-sale investment | - | - | - | - | - | (20,936) | - | - | - | (20,936) | - | (20,936) | |
| Cumulative loss reclassified from equity to profit or loss on disposal of available-for-sale investment | - | - | - | - | - | 16,879 | - | - | - | 16,879 | - | 16,879 | |
| Other comprehensive (expenses) income for the period | - | - | - | - | - | (4,057) | 38,834 | - | - | 34,777 | 1,085 | 35,862 | |
| Total comprehensive (expenses) income for the period | - | - | - | - | - | (4,057) | 38,834 | - | (26,271) | 8,506 | 5,466 | 13,972 | |
| At 30 September 2017 (unaudited) | 15,183 | 75,856 | 445 | 245,881 | 4,316 | - | (471) | (1,209) | 495,572 | 835,573 | 23,625 | 859,198 | |
| At 1 January 2016 (audited) | 15,183 | 75,856 | 445 | 245,881 | 1,953 | 5,565 | 13,796 | (1,209) | 596,364 | 943,834 | 53,411 | 997,245 | |
| Loss for the period | - | - | - | - | - | - | - | - | (71,085) | (71,085) | (33,435) | (104,520) | |
| Exchange differences on translation of financial statements from functional currency to presentation currency | - | - | - | - | - | - | (20,673) | - | - | (20,673) | (925) | (21,598) | |
| Decrease in fair value of available-for-sale investment | - | - | - | - | - | (3,210) | - | - | - | (3,210) | - | (3,210) | |
| Other comprehensive expenses for the period | - | - | - | - | - | (3,210) | (20,673) | - | - | (23,883) | (925) | (24,808) | |
| Total comprehensive expenses for the period | - | - | - | - | - | (3,210) | (20,673) | - | (71,085) | (94,968) | (34,360) | (129,328) | |
| At 30 September 2016 (unaudited) | 15,183 | 75,856 | 445 | 245,881 | 1,953 | 2,355 | (6,877) | (1,209) | 515,279 | 848,866 | 19,051 | 867,917 | |

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2017 (nine months ended 30 September 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September 2017 (the “period under review”), the Group recorded a loss attributable to owners of the Company of HK\$26,271,000, representing a 63% decrease in loss as compared with HK\$71,085,000 for the corresponding period of last year. For the nine months ended 30 September 2016, the Group had a one-off impairment loss on properties interest under construction and a write-off of construction deposit in respect of the 珠影文化產業園 (the “Pearl River Film Cultural Park”) amounting to HK\$109,047,000 in aggregate. The decrease in loss for the period under review was mainly attributable to the absence of such impairment or write-off.

Revenue for the nine months ended 30 September 2017 amounted to HK\$101,286,000 (nine months ended 30 September 2016: HK\$112,607,000). The decrease was mainly attributable to the substantial decrease in revenue from contracts for computer creation and production from international animated projects. On the other hand, the Group rescreened “Happy Little Submarine V: Magic Box of Time”, an original animated film, during the second quarter and screened “Toy Guardians”, a new original animated film, in August, which generated box office receipt revenue of HK\$14,339,000 in total for the Group. This box office receipt revenue partially off-set the decrease in revenue from certain international animated projects.

Cost of sales for the nine months ended 30 September 2017 amounted to HK\$68,050,000, representing an increase of HK\$8,171,000 as compared with HK\$59,879,000 for the corresponding period of 2016. The CG creation and production division recognized direct production costs of “Toy Guardians” during the period under review, while the Group did not screen any animated film for the corresponding period of last year. At the same time, the division’s staff cost and depreciation in cost of sales decreased as compared with that of the corresponding period of last year. Furthermore, the CG training division closed the training businesses in Shanghai and Guangzhou to achieve business integration last year and no cost of sales were incurred in these areas during the period under review. Therefore, direct costs related to training businesses decreased correspondingly.

Other income for the nine months ended 30 September 2017 amounted to HK\$6,431,000, representing a decrease of HK\$5,801,000 as compared with HK\$12,232,000 for the nine months ended 30 September 2016, which was mainly attributable to the decrease in government grants of HK\$6,665,000.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Distribution costs and selling expenses for the nine months ended 30 September 2017 amounted to HK\$20,083,000, representing an increase of HK\$17,284,000 as compared with HK\$2,799,000 for the corresponding period of 2016, which was mainly attributable to the marketing expenses incurred for the screening of two original animated films during the period under review.

Administrative expenses for the nine months ended 30 September 2017 amounted to HK\$41,257,000 (nine months ended 30 September 2016: HK\$52,388,000). For the corresponding period in 2016, administrative expenses were incurred due to the closure of training businesses in Shanghai and Guangzhou, and the professional fee incurred in connection with the litigation relating to the 廣東環球數碼創意產業有限公司 (“Guangdong Cultural Park”), as well as the late payment surcharges to 珠江電影製片有限公司 (“Pearl River Film Production”) for overdue rental. As no such expenses were incurred for the corresponding period in 2017, administrative expenses for the period under review decreased accordingly. Since the first quarter of 2016, administrative expenses have included the rental cost of Phase II of the Pearl River Film Cultural Park. As at the date of this report, Guangdong Cultural Park and Pearl River Film Production have not yet reached a final consensus in relation to the future collaboration arrangement of Pearl River Film Cultural Park. Therefore, the Group continued to adopt a prudent approach by recognizing all rental expenses in accordance with the Framework Agreement in profit or loss in the period in which they are incurred, among which, the rental cost allocated to Phase I was recognized in cost of sales, while the rental cost allocated to Phase II was recognized in administrative expenses.

There was no impairment loss on investment properties during the period under review, while an impairment loss on properties interest under construction for the Pearl River Film Cultural Park in the amount of HK\$85,463,000 was recognised in the corresponding period in 2016. Given that 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”) declared that the Framework Agreement and its supplementary agreement were terminated as of 22 March 2016 as disclosed in the section headed “Litigation” in this report. As advised by the PRC legal advisor of the Company, after the Framework Agreement and its supplemental agreement were terminated, 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Other gains and losses for the nine months ended 30 September 2017 was HK\$331,000 of net gains (nine months ended 30 September 2016: HK\$23,660,000 of net loss). For the corresponding period of last year, the Group wrote off construction deposit of HK\$23,584,000 in respect of the ruling of the Guangzhou Intermediate People's Court (as disclosed in the section headed "Litigation" in this report). The improvement from net loss to net gain for the period under review was mainly attributable to the absence of such losses.

BUSINESS REVIEW AND OUTLOOK

CG creation and production

The revenue of the Group's CG creation and production division was mainly generated from production services of animated films and television dramas, box office receipts and copyrights of original animated films, copyrights of animated television dramas, businesses which derives from animation brands, productions of display videos for exhibitions and property rental income.

During January to September 2017, the CG creation and production division mainly focused on the production of the original film and television drama projects. As for international project production services, the number of projects decreased as compared with that of the corresponding period of last year, while the cooperation of animated film and television drama projects in China increased. The division is now actively exploring strategic cooperation in respect of resources within the animation production chain. In respect of original film and television drama projects, three animated films are currently in progress, a sequel of a television drama is close to completion and the pre-production planning of several animated films and television dramas have also commenced. "Toy Guardians", a themed animated movie, was screened countrywide in early August during this summer holidays and generated box office receipt of approximately RMB30 million. In 2015, the movie was awarded the Animation Script with Best Potentials of the "Golden Monkey King" Award in the 11th China International Cartoon and Animation Festival (第十一屆中國國際動漫節「金猴獎」). During the second quarter of 2017, the division participated in the Beijing International Film Festival and the Annecy International Animated Film Festival of France. In the Beijing International Film Festival, the division announced various animated film projects, including "Happy Little Submarine" and "Smart Shunliu" film series and various works of different genres, which are expected to be completed and screened in the next five years. In the Annecy International Animated Film Festival of France, the division exhibited the above films and received a number of enquiries regarding investment and creation cooperation. "Happy Little Submarine V: Magic Box of Time", which was screened two years ago, was rescreened during the 1 June International Children's Day 2017 time slot, and achieved the highest patronage rate among films on the International Children's Day. The film achieved better results than the new imported films from the USA, Japan and India as well as the domestic films released around the same time, which strengthened the confidence for the sixth film of the "Happy Little Submarine" series planned to be released next year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

In order to strengthen the collaboration among the entire production chain including the development of animation stories, co-production investment, promotion and distribution, and brand licensing, the Group completed the reform of the creative team during the first quarter of 2017, including the establishment of five animation studios, as well as enhancing the professional standards and the competitiveness with regard to the planning and development of original films, the production of high-quality animated films, and the creation of the animated television dramas, so as to enrich the contents of the original animations and increase the value of the creative team. On the technology aspect, the Group follows the industry trend in making innovative upgrades on the content creation process of animated films and television dramas by actively promoting real-time rendering, and strengthening the research and development in the application technology of augmented reality (AR) and virtual reality (VR). In addition, the division acquired the shares of an associated company in Macau and entered into a Strategic Cooperation Agreement with Macau Academy of Cinematic Arts of Macau University of Science and Technology, in the hope of establishing a comprehensive strategic relationship between the parties in respect of project cooperation and training of animated films and television dramas in the future.

During January to September 2017, the CG creation and production division received several honorable titles and awards, including “2016 Top Ten Outstanding Enterprises in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業2016年度十佳優秀企業」), “2016 Top Ten Operators in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業2016年度十佳經營者」), “2016 Top Ten Originators in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業2016年度十佳原創人」), “Outstanding Work in China Golden Rooster and Hundred Flowers Film Festival – the 2nd International Micro Film Exhibition” (「中國金雞百花電影節第二屆國際微電影展映優秀作品」), “3rd Prize of the 30-minute category in the Exhibition of Micro Film about the Core Values of Socialism” (「社會主義核心價值觀主題微電影征集展示活動30分鐘類三等優秀作品」), and “Guangdong Provincial Copyright Industrial Demonstration Base” (「廣東省版權興業示範基地」).

Looking ahead, the division will work proactively in the development of original film production, as well as strive to obtain international and domestic project production services. Through utilizing production capacity and human resources, the division is expected to achieve the best overall effectiveness and sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Training

During January to September 2017, the business team of the CG training division carried out constant attempts in all aspects in an effort to improve the division. In March, they commenced the student enrollment for VR profession and intended to start a new round of teaching reform. The focuses are to improve competitiveness in respect of teaching quality, employment recommendation and student services. The preliminary result was positive and is reflected through improvement in the employment rate and the basic salary of students. The training division continued to maintain good communication and seek opportunities for cooperation with renowned universities and colleges. The division has also entered into placement training agreements with several relevant professional universities and colleges, aiming to cultivate more talents with artistic accomplishments and advanced practical skills. Although income of the division was slightly lower than expected, the respective costs were also controlled. Going forward, the division will focus on the promotion of online courses. Meanwhile, the division will provide ongoing services for students who have completed the courses by means of lifelong employment recommendation or venture investment cooperation projects, targeting to develop the training business into a cooperation and innovative platform for CG talents so as to enlarge its market share in the vocational training.

Cultural Park

The Cultural Park division was operated by Guangdong Cultural Park, an indirect non-wholly owned subsidiary of the Company. During January to September 2017, we continued to operate the Cultural Park, which generated stable income from rental and management fees, 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 division also continued to stringently control costs, strengthen internal control and constantly optimise internal resources, in order to achieve the highest business effectiveness.

On 17 October 2016, Guangdong Cultural Park received a civil judgement from the Guangzhou Intermediate People's Court which declared the termination of the Framework Agreement and its Supplemental Agreements entered into between Guangdong Cultural Park and Pearl River Film Production. Guangdong Cultural Park lodged an appeal (the "Appeal") in November 2016 and the first court hearing of the Appeal was conducted on 30 March 2017, but has not yet received any reply 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") as of the date of this report. Details in relation to the litigation are set out in the announcements of the Company dated 12 April 2016, 21 October 2016 and 16 December 2016, and the section headed "Litigation" in this report. 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 and the future revenue of the division.

LITIGATION

On 11 April 2016, Guangdong Cultural Park received a notice of response to action (應訴通知書)(the “Notice of Response to Action”) from the Guangzhou Intermediate People’s Court dated 6 April 2016. It was set out in the Notice of Response 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 of the Framework Agreement and its Supplemental Agreements (“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 30 September 2017, the restricted bank deposit amounted to approximately HK\$38,226,000 (31 December 2016: 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.

In light of the above legal proceedings, Guangdong Cultural Park denied the Plaintiff’s allegations 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 amounted to RMB100,000,000. On 26 May 2016, the Guangzhou Intermediate People’s Court accepted the counterclaim filing by the Guangdong Cultural Park. The first hearing of the counterclaim was held on 2 August 2016 and the PRC legal advisors of Guangdong Cultural Park sought a further extension of the settlement negotiations period for an additional one month in respect of both Alleged Breach and the counterclaim.

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 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 (the “Appeal”) which was accepted by Guangdong Higher People’s Court on 9 February 2017. The first court hearing of the Appeal was conducted on 30 March 2017. Subsequent to the first court hearing of the Appeal, both of the Plaintiff’s and Guangdong Cultural Park’s lawyers had further submitted supplementary documents as requested by Guangdong Higher People’s Court. As at the date of this report, 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.

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 nine months ended 30 September 2017.

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

As at 30 September 2017, 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. 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 30 September 2017, 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 nine months ended 30 September 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2017, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

| Name of shareholder | Capacity in which interests are held | Number of shares held in the Company | Approximate percentage of total issued share capital of the Company |
|-----------------------------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------------------------------------|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Interests of controlled corporations | 619,168,023 (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 30 September 2017, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the nine months ended 30 September 2017, none of the Directors had an interest in a business (other than those businesses where the Directors were appointed as directors 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 code provision A.6.7 of the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (the “CG Code”) requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the view of shareholders. Prof. Japhet Sebastian Law, the independent non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 26 May 2017 as he was out of Hong Kong.

Save as disclosed above, the Company has complied with all the code provisions of the CG Code throughout the nine months ended 30 September 2017.

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 nine months ended 30 September 2017.

AUDIT COMMITTEE

The Group’s third quarterly results for the nine months ended 30 September 2017 were unaudited. The Company’s audit committee (the “Audit Committee”) has reviewed the 2017 unaudited third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company for, amongst other things, reviewing the third quarterly results of the Group for the nine months ended 30 September 2017.

APPRECIATION

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

By Order of the Board
Xu Liang
Chairman

Hong Kong, 9 November 2017