G·D·C

環球數碼

Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

2017

ANNUAL 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.

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. 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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xu Liang, aged 52, senior accountant, graduated from Fudan University and obtained a bachelor degree in statistics and a master degree in business administration from Tsinghua University. Mr. Xu was appointed as an Executive Director and the Chairman, the Chairman of each of the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company in June 2017. Mr. Xu joined the group of Shougang Corporation (now "Shougang Group Co., Ltd.") ("Shougang Group"), the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in 1988 and held various senior positions. He is the general manager of Shougang Holding and an executive director and the chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand"). Shougang Grand is 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 ("SFO") and a company listed on the main board of the Stock Exchange. Mr. Xu has extensive experience in management.

Mr. Chen Zheng, aged 58, 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 59, senior economist. He holds a master degree in business administration of China Europe International Business School. Mr. Jin was appointed as an Executive Director of the Company in February 2006 and is currently the 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.

Ms. Cheng Xiaoyu, aged 51. Ms. Cheng was appointed as an Executive Director and the Vice President of the Company and a member of the Executive Committee of the Company in December 2014. Ms. Cheng graduated from The Graduate School of Xi'an Jiaotong University in 1988 and majored in linguistics and applied linguistics and holds a bachelor of arts. Ms. Cheng joined Shougang Group 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 Concord International Enterprises Company Limited ("Shougang International"), a director of Shougang Concord Century Holdings Limited ("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 general manager of Shougang Holding and the director of Beijing Dongzhimen International Apartment Co., Ltd..

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Leung Shun Sang, Tony, aged 75. 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 Fushan Resources Group Limited ("Shougang Resources") and CWT International Limited (formerly known as "HNA Holding Group Co. 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 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 DIRECTOR

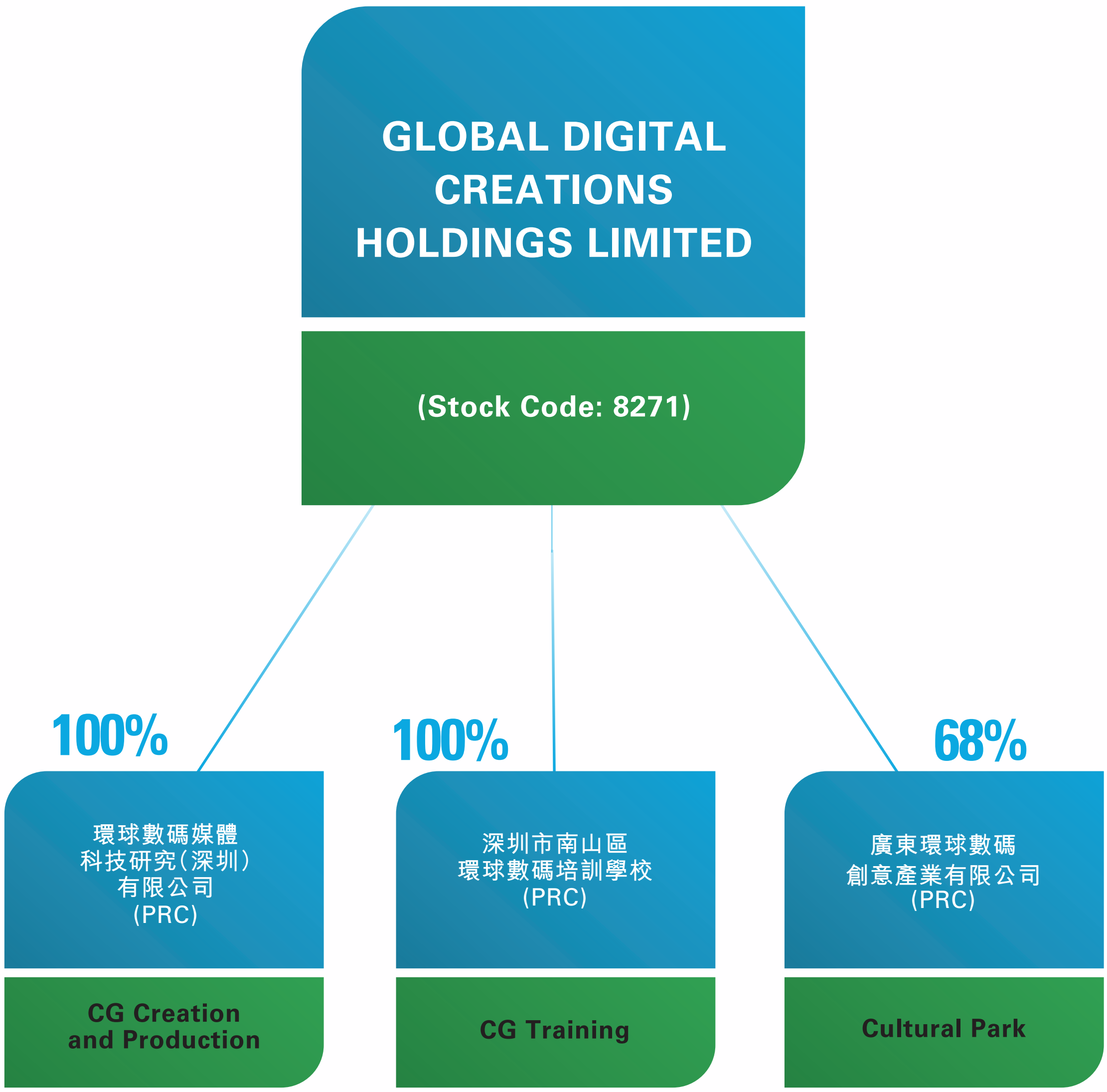
Mr. Kwong Che Keung, Gordon, aged 68. Mr. Kwong was appointed as an Independent Non-executive Director of the Company in April 2003. He is also the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies including NWS Holdings Limited, OP Financial Investments Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Group Holdings Limited, Chow Tai Fook Jewellery Group Limited and FSE Engineering Holdings Limited. He is an independent non-executive director of Piraeus Port Authority S.A., which is listed in Greece. He was an independent non-executive director of COSCO SHIPPING Holdings Co., Ltd. and CITIC Telecom International Holdings Limited in the past three years. Mr. Kwong graduated from The University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was a partner of PriceWaterhouse Hong Kong from 1984 to 1998 and was an independent member of the Council of the Stock Exchange from 1992 to 1997, during which, he had acted as convener of both the compliance committee and the listing committee.

Prof. Japhet Sebastian Law, aged 66. Prof. Law was appointed as an Independent Non-executive Director of the Company in September 2008. He is also the Chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company. Prof. Law graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. He joined The Chinese University of Hong Kong in 1986 and retired in August 2012. Before retirement, he was a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Prof. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Prof. Law is active in public services and 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 Resources, all of which are companies listed on the Stock Exchange. He was an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd. in the past three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Lam Yiu Kin, aged 63. Mr. Lam was appointed as an Independent Non-executive Director of the Company in July 2015. He is also a member of each of Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England & Wales, the Institute of Chartered Accountants in Australia and New Zealand and Hong Kong Institute of Certified Public Accountants ("HKICPA"), and a honorary fellow of The Hong Kong Polytechnic University. Mr. Lam was an Adjunct Professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from September 2014 to August 2016, and was a member of the Finance Committee of the Hong Kong Management Association. Mr. Lam has extensive experience in accounting, auditing and business consulting. Mr. Lam was a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. Mr. Lam graduated from The Hong Kong Polytechnic University with a higher diploma in June 1975. Mr. Lam currently serves as an independent non-executive director of Shougang Century, Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Company Limited, Spring Real Estate Investment Trust, Vital Mobile Holdings Limited, COSCO SHIPPING Ports Limited, Nine Dragons Paper (Holdings) Limited, WWPKG Holdings Company Limited, CITIC Telecom International Holdings Limited and Bestway Global Holding Inc.. He was an independent non-executive director of Royal Century Resources Holdings Limited and Mason Group Holdings Limited (formerly known as "Mason Financial Holdings Limited") in the past three years.

MAIN OPERATIONAL STRUCTURE



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Global Digital Creations Holdings Limited, I herewith present to you the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

For the financial year ended 31 December 2017, the Group recorded approximately HK$133,915,000 of total revenue and approximately HK$43,596,000 of gross profit, representing a decrease of 9% and 36% respectively as compared to approximately HK$146,759,000 of total revenue and approximately HK$68,429,000 of gross profit for the corresponding period of the previous year. Consolidated annual loss amounted to approximately HK$24,015,000, representing a decrease of 75% as compared with that of last year.

In 2017, the revenue from international subcontracting production of computer graphic ("CG") creation and production business decreased mainly because of the double-fold increase in labour and rental costs with the rapid development of China economy. China's status as a world factory has been gradually replaced by other regions in Asia. With regard to animation production industry, production service provided in international subcontracting production projects was no longer a one-way service provided by China only, while China-foreign cooperation has become more diversified and interactive. In response to the above market change, the Group strived to work on the production of original animated films and television dramas in 2017, with a total box office receipt of original animated film "Toy Guardians" newly launched and animated film series "Happy Little Submarine V: Magic Box of Time" rescreened in the year amounted to approximately RMB42 million. "Toy Guardians" has received numerous awards and its box office receipts ranked top ten in domestically produced animated films of the year, while "Happy Little Submarine V: Magic Box of Time" achieved the highest patronage rate among films screened on the 1 June International Children's Day. In 2017, the Gross Domestic Product (GDP) of China recorded a year-on-year growth of 6.9%, reflecting steady growth of the China economy. However, the box office sales of animated films in China declined. The total box office sales was approximately RMB4.9 billion which decreased approximately RMB2 billion from 2016, representing a 28% year-on-year reduction. Among the animated films screened, 31 films in total were domestic production, receiving a total of RMB1.35 billion box office receipts. There was only a slight growth in the domestically produced animated film market in 2017 as compared with the total of RMB1.32 billion box office receipts from 37 domestically produced animated films in 2016. However, the Group believes that under the current economic situation in China, there is still a rigid demand in domestically produced animated film market in the future, yet the competition in the industry will be more intense owing to the higher expectations of audience towards film quality. The Group will proactively develop original films in the future, and continue to take every chance to provide quality production services for more international and domestic projects.

As human resource is an indispensable part of animation production industry, the Group has been working hard on nurturing talents on all fronts for animation production. With the development of cloud technology and wide popularisation of webcast platform, barrier and cost of online education have been continuously lowered. The Group seeks to develop an online educational platform with an aim to promote the most comprehensive and systematic online courses. CG training business of the Group has slightly improved in 2017 and is expected to cultivate more elites of animation production for the Group and the industry in the coming year.

CHAIRMAN'S STATEMENT

In the area of commercial investment project, the framework agreement on the reconstruction and its supplemental agreements of the Guangzhou Cultural Park was involved in legal proceedings in the past two years. After a civil judgment received from the Higher People's Court of Guangdong Province of the PRC (the "Guangdong Higher People's Court") on 16 March 2018, the Group has initiated negotiations with 珠江電影製片有限公司 ("Pearl River Film Production") in respect of the terms of continuing operation of the Guangzhou Cultural Park to strive for the most favourable option to ensure shareholders' interests.

Although the future is full of challenges and changes, the Group will continue to uphold the principle of pragmatism and prudence to proactively expand cultural industry business, and be optimistic and proactive to search for appropriate projects in the market, in order to diversify business development and stabilise profit base.

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 management members and staff for their hard work and dedication throughout the year.

Xu Liang
Chairman

Hong Kong, 21 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

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

During 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 significantly reduced as compared with that of the corresponding period of last year, while there were more cooperation on animated film and television drama projects in China. The division is now actively exploring strategic cooperation in respect of resources within the Chinese animation industry chain; and during the year, we undertook to produce the first print of an animation movie adopted from a renowned comic in China, the planning and development of the first prints of two television animations and part of the intermediate production of animation movies and projects of online animation series. 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 of 2017 during the summer holidays and generated box office receipt of approximately RMB31.68 million. The movie was awarded the Animation Script with Best Potentials of the "Golden Monkey King" Award at the 11th China International Cartoon and Animation Festival (第十一屆中國國際動漫節「金猴獎」) in 2015. During the second quarter of 2017, the division participated in the Beijing International Film Festival and the Annecy International Animated Film Festival of France. At the Beijing International Film Festival, the division announced several animated film projects, including the "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. At the Annecy International Animated Film Festival of France, the division exhibited the above films and received a number of enquiries regarding investment and joint creations. "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 with a box office receipt of over RMB11 million. The film achieved the highest patronage rate among films on the International Children's Day, better than the new imported films from the USA, Japan and India as well as the domestic films that were newly launched around the same time. The sound performance among others strengthened the confidence for the sixth film of the "Happy Little Submarine" series planned to be released in near future.

MANAGEMENT DISCUSSION AND ANALYSIS

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 movies, co-production investment, promotion and distribution, and brand licensing, the division completed the reform of the creative team during the year, including the establishment of five animation studios, as well as enhanced 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 teams. 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 on animated films and television dramas in the future.

During 2017, the CG creation and production division received several honourable titles and awards, including "2016 Top Ten Outstanding Enterprises in Shenzhen's Cultural Creative Industry" (「深圳市文化創意產業二零一六年度十佳優秀企業」), "2016 Top Ten Operators in Shenzhen's Cultural Creative Industry" (「深圳市文化創意產業二零一六年度十佳經營者」), "2016 Top Ten Originators in Shenzhen's Cultural Creative Industry" (「深圳市文化創意產業二零一六年度十佳原創人」), "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徵集展示活動三十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」). The television animation, "Smart Shunliu – Eagle Boy" received "Five "One" Project Award" (「五個一工程獎」) in Guangdong Province as well as "Best Animation Series-Bronze Medal" in the 14th China Animation & Comic Competition Golden Dragon Award (第十四屆中國動漫金龍獎「最佳系列動畫獎」銅獎); the movie, "Toy Guardians" received "Jade Monkey Prize – 2017 Top Ten New Animation IP" in China IP Licensing Conference (中國IP產業年會「玉猴獎」二零一七年度十佳新銳動漫IP), Nomination Prize of "Xin Guang Award – Best Animation Movie" in the 6th China Xian International Original Animation and Comics Competition (「新光獎」中國西安第六屆國際原創動漫大賽最佳動畫影院片獎提名獎) and Silver Prize of "Cyber Sousa Award – Best Long Animated Film" at the 10th Xiamen International Animation Festival (第十屆廈門國際動漫節「金海豚」動畫作品大賽最佳影視動畫長片銀獎). The television drama, "Smart Shunliu – Eagle Boy" and the movie, "Toy Guardians" received respectively "Excellent TV Cartoon Award" (「優秀電視動畫片獎」) and "Excellent Animated Film Award" (「優秀動畫電影獎」) in the "Dynamic Golden Sheep" Excellent Work Support Plan in 2017 (二零一七「動感金羊」優秀作品扶持計劃).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production *(Continued)*

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 the effective utilization of production capacity and human resources, the division is expected to achieve the best overall effectiveness and sustainable development.

CG Training

In 2017, the business team of the CG training division carried out constant attempts in various aspects and started a new round of teaching reform. The focuses were to improve competitiveness in respect of teaching quality, employment recommendation and student services. During the year, the division started to enroll students for professional VR classes. Meanwhile, it commenced the cooperation with the Education College of Jinan University, and enrolled students in two professional areas: Design and Production of Animation and Comics, and Arts Design, as well as continued to maintain good communications with renowned schools in order to seek opportunities for cooperation. During the year, the division entered into placement training agreements with several relevant professional universities and colleges, aiming to cultivate more talents with artistic accomplishments and advanced practical skills. The preliminary result was positive and is reflected through improvement in the employment rate and the basic salary of students. In 2017, competition in the CG training market became more intense. Due to the overall tightening of the student loan policy, the division had to adjust its strategies and strengthened its cooperation with universities and colleges, in an aim to enhance its influence within secondary and higher vocational schools. On the other hand, the division also introduced online webcasting and participated in the teaching of secondary vocational schools, strived to ensure the sustainable development of its business through establishing a good reputation in teaching quality and favourable employment results, and currently striving steadily along this direction. Income of the division for the year was slightly higher than that of last year, and the relevant costs were also under control. Thus the division has basically reached the break-even point. Looking into 2018, the division intends to develop an online education platform and plans to promote the platform to all domestic secondary and higher vocational schools. In addition, the division intends to provide ongoing services for students who have completed the courses by means of lifelong employment recommendations or venture investment cooperation, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park

The Cultural Park division was operated by 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), an indirect non-wholly owned subsidiary of the Company. During 2017, income from rental and management fees of the Cultural Park had remained stable. During the year, the division mainly focused on the core business of shopping malls and endeavored to improve the daily management, and in the areas of investment-seeking, property management, fees collection and security, we strengthened the communications between internal departments, improved the quality of management and increased the efficiency of operation.

On 17 October 2016, Guangdong Cultural Park received a civil judgment 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) (the "Guangzhou Intermediate People's Court") which included, among others, the Framework Agreement and its Supplemental Agreements entered into between Guangdong Cultural Park and Pearl River Film Production were terminated as of 22 March 2016. 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 at 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"). On 16 March 2018, Guangdong Cultural Park received a civil judgment from the Guangdong Higher People's Court, which rejected the Appeal and the decision was upheld. Details in relation to the litigation are set out in the announcements of the Company dated 12 April 2016, 21 October 2016, 16 December 2016 and 20 March 2018, and note 43 to the consolidated financial statements of this annual report. The Company has initiated negotiations with Pearl River Film Production in respect of the terms for continuing operation of the Pearl River Film Cultural Park. In the event that the outcome of the negotiation is not in favour of the division, there will be a material adverse impact on the fair value of the 珠影文化產業園 (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.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded a loss attributable to owners of the Company of HK$29,295,000, representing a 53% decrease in loss as compared with HK$62,158,000 for last year. For the year of 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 Pearl River Film Cultural Park amounting to HK$107,777,000 in aggregate. The decrease in loss for the year was mainly attributable to the absence of such impairment or write-off. The loss for the year was mainly attributable to (1) a substantial decrease in revenue from contracts for CG creation and production from international animated projects and (2) a loss which resulted from the release of an animated film in August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

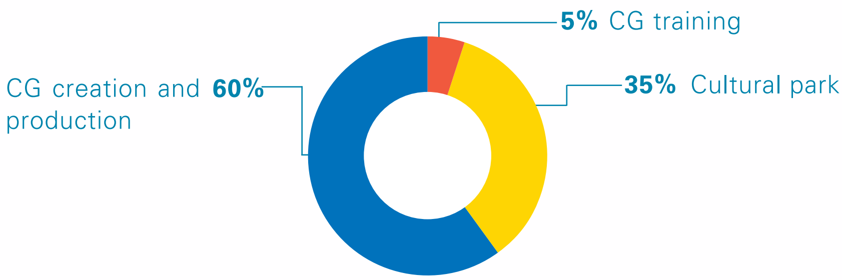
Revenue

Revenue for the year ended 31 December 2017 amounted to HK$133,915,000 (2016: HK$146,759,000). The decrease was mainly attributable to a substantial decrease in revenue from contracts for CG creation and production. The revenue from contracts for CG creation and production during the year was mainly box office receipt revenue generated from the screening of original animated films. During the year, 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$14,276,000 in total for the Group.

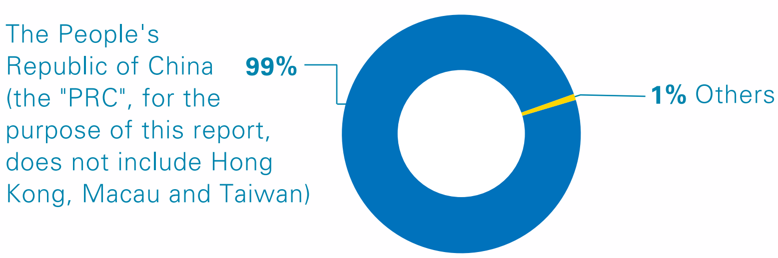
Cost of Sales and Gross Profit

Cost of sales for the year ended 31 December 2017 amounted to HK$90,319,000, representing an increase of HK$11,989,000 as compared with HK$78,330,000 for 2016. The increase in the cost of sales was mainly attributable to the recognition of the amortized direct production costs of "Toy Guardians" and provision for impairment for the cost of programmes of one of the original projects during the year, while the Group did not have such costs last year. Meanwhile, the staff costs, production outsourcing fee and depreciation included in the cost of sales of the division decreased as compared with the corresponding period of last year.

REVENUE BY PRINCIPAL ACTIVITY FOR 2017



REVENUE BY GEOGRAPHICAL LOCATION FOR 2017



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Other Income

Other income for the year ended 31 December 2017 amounted to HK$14,786,000, representing a decrease of HK$7,794,000 as compared with HK$22,580,000 for the previous year, which was mainly attributable to the decrease in government grants of HK$9,822,000.

Distribution Costs and Selling Expenses

Distribution costs and selling expenses for the year ended 31 December 2017 amounted to HK$22,908,000, representing an increase of HK$19,096,000 as compared with HK$3,812,000 for 2016, which was mainly attributable to the marketing expenses incurred for the screening of two original animated films during the year.

Administrative Expenses

Administrative expenses for the year ended 31 December 2017 amounted to HK$55,357,000 (2016: HK$65,284,000). Administrative expenses for last year increased due to the closure of training businesses in Shanghai and Guangzhou, and professional service fee was incurred in connection with the litigation relating to the Guangdong Cultural Park. As no such expenses were incurred in 2017, administrative expenses for the year 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 annual 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.

Impairment Loss on Investment Properties

The impairment loss on investment properties for the year ended 31 December 2016 was included in the properties interest under construction of Pearl River Film Cultural Park of the Group. Given that 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 note 43 to the consolidated financial statements, 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 the previous year.

Other Gains and Losses

Other gains and losses for the year ended 31 December 2017 was HK$2,432,000 of net losses (2016: HK$27,138,000). The decrease in net losses was mainly attributable to the write-off of construction deposit of HK$23,310,000 in respect of the ruling of the Guangzhou Intermediate People's Court and the late payment surcharges to Pearl River Film Production for overdue rental of HK$3,172,000 for last year, while there were no such losses this year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Change of Fair Value of Investment Properties

The decrease in the fair value of investment properties for the year ended 31 December 2017 amounted to HK$579,000 (2016: HK$Nil). Phase I of the Cultural Park is a completed property, and its fair value as at 31 December 2017 and 2016 were determined by a qualified professional valuer.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had cash and cash equivalent of HK$294,687,000 (2016: HK$274,528,000), which were mainly denominated in Renminbi, United States dollars and Hong Kong dollars, restricted bank deposit of HK$46,253,000 (2016: HK$17,797,000) as well as structured deposits of HK$1,686,000 (2016: HK$19,007,000).

As at 31 December 2017 and 31 December 2016, the Group had no borrowings or overdrafts. The Group's current ratio was 3.1 (2016: 3.2), which was calculated based on current assets of HK$339,575,000 and current liabilities of HK$111,129,000.

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

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK$850,673,000 as at 31 December 2017 (2016: HK$827,067,000). The increase was attributable to exchange differences of HK$56,958,000 on translation of financial statements attributable to owners of the Company from functional currency to presentation currency, partially offset by the decrease in investment revaluation reserve of HK$4,057,000 and the loss attributable to owners of the Company of HK$29,295,000 for the year ended 31 December 2017.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

On 28 November 2014, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, and Huayi Brothers International Investment Limited (the "Purchaser"), an independent third party of the Company, entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which the Purchaser has conditionally agreed to acquire and GDC Holdings has conditionally agreed to sell all the shares of GDC Technology Limited ("GDC Tech") held by GDC Holdings (i.e. 29,779,777 shares), representing approximately 11.38% of the issued shares of GDC Tech as at the date of execution of the Sale and Purchase Agreement) ("GDC Tech Shares") at an initial consideration of US$0.4778 per GDC Tech Share (subject to adjustment) (the "Disposal").

All the conditions precedent had been fulfilled pursuant to the terms and conditions of the Sale and Purchase Agreement and the first completion in respect of the Disposal took place on 26 February 2015. Immediately following the first completion, the GDC Tech Shares which the Group holds reduced to 5,955,955 shares and the Group's shareholding in GDC Tech reduced to 2.28%. The second completion in respect of the Disposal took place on 28 June 2017. Pursuant to the consideration adjustment mechanism under the Sale and Purchase Agreement, the initial consideration per GDC Tech Share was adjusted and 5,955,955 GDC Tech Shares were transferred to the Purchaser at the nominal consideration of US$1. Immediately after the second completion, the Group ceased to hold any equity interest in GDC Tech.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT *(Continued)*

Further details of the Disposal are set out in the announcements of the Company dated 16 October 2014, 14 November 2014, 28 November 2014, 19 December 2014, 24 December 2014, 26 February 2015 and 28 June 2017 and the circular of the Company dated 30 December 2014.

Save as disclosed above, the Group did not have any material acquisitions, disposals and significant investment for the year ended 31 December 2017.

CHARGE ON ASSETS

As at 31 December 2017, there were no charges on any of the Group's assets for loans and bank facilities.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi, and incurs costs mainly in Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure, and thus has not implemented any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposure. As at 31 December 2017, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Save for the litigations disclosed in note 43 to the consolidated financial statements, the Group had no significant contingent liabilities as at 31 December 2017.

EMPLOYEES

As at 31 December 2017, the Group employed 397 (2016: 398) full time employees (other than employees of the Group's associates). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

For the year ended 31 December 2017, neither the Company nor its subsidiaries had paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individuals.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2017, 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 views 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 26 May 2017 as he was out of Hong Kong.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2017.

BOARD OF DIRECTORS

Composition

As at 31 December 2017, the Board comprises eight members including four Executive Directors, Mr. Xu Liang, 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. Xu Liang and has a balanced composition of executive Directors and non-executive Directors such that there is a strong element of independence at the Board level, which facilitates independent judgment. All Directors have given sufficient time and attention to the affairs of the Group and the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the businesses of the Group. Details of backgrounds and qualification of the Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" of this annual report.

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Composition *(Continued)*

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

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

Role and Function

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

Board Meetings and Attendance

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

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

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

The Company Secretary is responsible for taking minutes of the Board meetings and meetings of the Board committees, drafts and final versions of which would be sent to the Directors for their comments and records respectively. 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 written resolution.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meetings and Attendance *(Continued)*

The Board held five Board meetings during the year ended 31 December 2017. The Directors had made active contribution to the affairs of the Group and the Board meetings were held to consider, among other things, various projects contemplated by the Group, review the effectiveness of the risk management and internal control system of the Group, and to review and approve the quarterly results, interim results and annual results of the Group. The attendance records of the Board meetings and general meeting held in 2017 are set out below:

Name of Directors	Board meeting	General meeting
	Number of meetings attended/ Number of meetings eligible to attend	
Executive Directors		
Mr. Xu Liang *(Chairman) (appointed on 14 June 2017)*	2/2	N/A
Mr. Li Shaofeng *(Chairman) (resigned on 14 June 2017)*	3/3	1/1
Mr. Chen Zheng	5/5	1/1
Mr. Jin Guo Ping	5/5	0/1
Ms. Cheng Xiaoyu	4/5	1/1
Non-executive Director		
Mr. Leung Shun Sang, Tony	5/5	1/1
Independent Non-executive Directors		
Mr. Kwong Che Keung, Gordon	5/5	1/1
Prof. Japhet Sebastian Law	5/5	0/1
Mr. Lam Yiu Kin	5/5	1/1

Access to Information

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

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

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-appointment 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 following general meeting of the Company or, in the case of an addition to the Board, until the next following annual general meeting of the Company, and shall then be eligible for re-election at such general meeting. Every Director (including non-executive Director) 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. They are 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 regularly updated on the latest development of the GEM Listing Rules and other applicable statutory requirements to ensure compliance with the good corporate governance practice.

Board Diversity Policy

The Board adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's businesses. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, 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 2017 to 31 December 2017. 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. Xu Liang *(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	✓

BOARD OF DIRECTORS *(Continued)*

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. Currently, Mr. Xu Liang 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 is 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 Rule 5.05 of the GEM Listing Rules, the Company has appointed three independent non-executive Directors. Two of the Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon and Mr. Lam Yiu Kin have appropriate professional qualifications on accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence for the year ended 31 December 2017 pursuant to Rule 5.09 of the GEM Listing Rules and based on the contents of such confirmations, the Company considers that all independent non-executive Directors are independent during the year.

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. During the year ended 31 December 2017, the Executive Committee consists of four Executive Directors namely, Mr. Li Shaofeng (resigned on 14 June 2017), Mr. Xu Liang (appointed on 14 June 2017), Mr. Chen Zheng, Mr. Jin Guo Ping and Ms. Cheng Xiaoyu. It was chaired by Mr. Li Shaofeng until 14 June 2017 and is chaired by Mr. Xu Liang from 14 June 2017.

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

Audit Committee

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

The principal duties of the Audit Committee include:

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

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

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

The Audit Committee held four meetings during the year ended 31 December 2017 with the Company's management and the internal audit manager. Two meetings were held with the external auditor of the Company for the purpose of, among others, reviewing:

- the Group's internal control system and risk management;
- the final results of the Group for the financial year ended 31 December 2016;
- the quarterly results of the Group for the three months ended 31 March 2017;
- the interim results of the Group for the six months ended 30 June 2017; and
- the quarterly results of the Group for the nine months ended 30 September 2017.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Audit Committee *(Continued)*

The attendance record of the Audit Committee meeting held in 2017 is set out below:

Name of Directors	Number of meetings attended/ Number of meetings eligible to attend
Mr. Kwong Che Keung, Gordon *(Chairman)*	4/4
Prof. Japhet Sebastian Law	3/4
Mr. Lam Yiu Kin	4/4

For the year ended 31 December 2017, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor of the Company.

Nomination Committee

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

The principal duties of the Nomination Committee include:

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

Where vacancies exist on the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be submitted to the Board for approval.

The Nomination Committee will also take into account the Board Diversity Policy 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 seek any necessary information from the employees of the Group within its scope of duties and obtain external independent professional advice if it considers necessary.

The Nomination Committee consists of five Directors, namely, Mr. Li Shaofeng (resigned on 14 June 2017), Mr. Xu Liang (appointed on 14 June 2017), Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin. It was chaired by Mr. Li Shaofeng until 14 June 2017 and is chaired by Mr. Xu Liang from 14 June 2017. The independent non-executive Directors constitute the majority of the committee members.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Nomination Committee *(Continued)*

For the year ended 31 December 2017, the Nomination Committee had recommended to the Board the appointment of new Director and reviewed the structure of the Board.

The Nomination Committee meeting held one meeting in 2017 and the attendance record is set out below:

Name of Directors	Number of meetings attended/ Number of meetings eligible to attend
Mr. Xu Liang *(Chairman) (appointed on 14 June 2017)*	N/A
Mr. Li Shaofeng *(Chairman) (resigned on 14 June 2017)*	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

Remuneration Committee

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- reviewing and approving the Directors' remuneration proposals with reference to the Board's corporate goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management and making recommendations to the Board on the remuneration of the non-executive Directors and independent non-executive Directors;
- reviewing and approving the compensation payable to the executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

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

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 (resigned on 14 June 2017), Mr. Xu Liang (appointed on 14 June 2017), 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 committee members.

For the year ended 31 December 2017, the Remuneration Committee had, among others:

- reviewed the remuneration and terms of service contracts of an executive Director and an independent non-executive Director;
- determined the bonuses of the executive Directors for 2017 and the salaries of the executive Directors for 2018; and
- made recommendations to the Board on fees for the non-executive Director and independent non-executive Directors for 2018.

The Remuneration Committee meeting held one meeting in 2017 and the attendance record is set out below:

Name of Directors	Number of meetings attended/ Number of meetings eligible to attend
Prof. Japhet Sebastian Law *(Chairman)*	1/1
Mr. Xu Liang *(Vice Chairman) (appointed on 14 June 2017)*	N/A
Mr. Li Shaofeng *(Vice Chairman) (resigned on 14 June 2017)*	1/1
Mr. Leung Shun Sang, Tony	1/1
Mr. Kwong Che Keung, Gordon	1/1
Mr. Lam Yiu Kin	1/1

Corporate Governance Function

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

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

Company Secretary

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their 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 section headed "INDEPENDENT AUDITOR'S REPORT" on pages 55 to 57 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 "Delegation Policy" in order to strengthen its internal control system.

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

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

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they remain effective in the dynamic and ever-changing business environment. During the year ended 31 December 2017, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the I.A. Department), continuously reviewing the effectiveness of the Group's internal control systems. The division head of each principle business unit and the Chief Executive Officer made representations as to compliance by themselves and their subordinates of key internal control systems for 2017 to the Board. The requirement for making representation letters by the management can strengthen individual responsibility for corporate governance and controls.

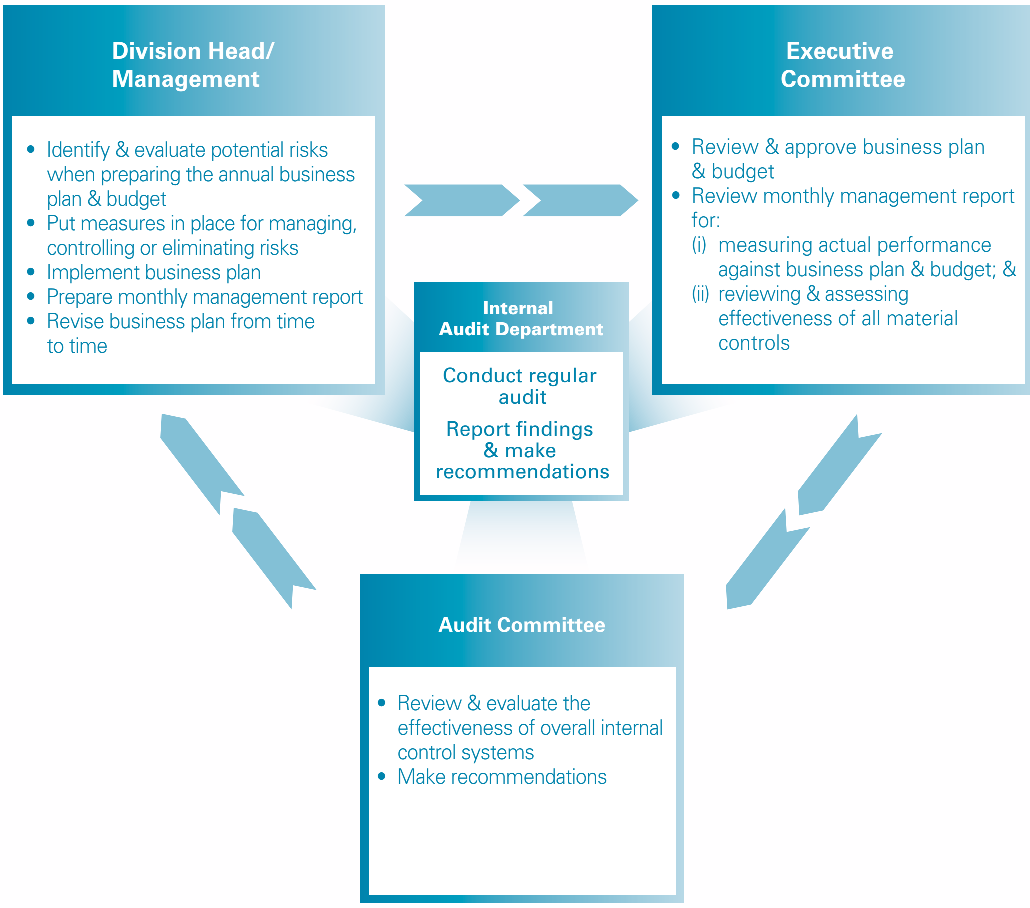
To comply with the code provision C.2.2 of the CG Code, the Board also included a review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, their training programmes and budget in its annual review for 2017.

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

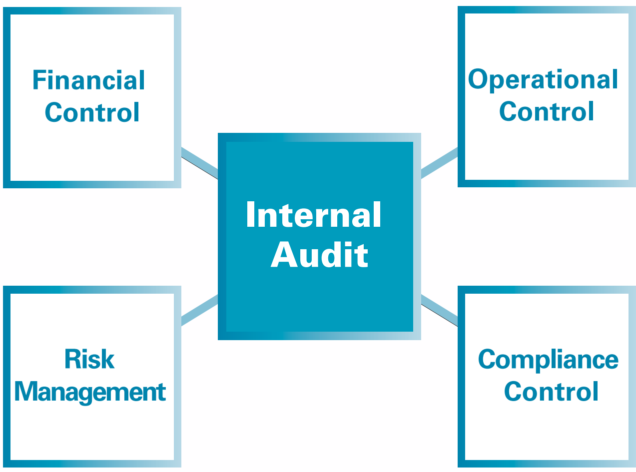
CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

Internal Control System



Internal Audit Functions



CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT

Risk Management Framework

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

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

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

Risk Management Structure

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

Risk Management Process

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

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

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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT *(Continued)*

Risk Management Process *(Continued)*

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

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

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

The Board has reviewed the risk management report of the Group for the year ended 31 December 2017 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 have arranged further discussion with the contracted party aiming 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 2017, 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	1,190
Non-statutory audit services:	
Review on interim financial report	310
	1,500

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.

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 general 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 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 for annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings.

Convening Special General Meeting and Putting Forward Proposals at General Meeting

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

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

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

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

Constitutional Documents

There was no change to the Bye-laws during the financial year ended 31 December 2017. A copy of the latest consolidated version of the Bye-laws has been published on the websites of the Stock Exchange and the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

FOREWORD

The Company is one of the leading integrated cultural creative companies in the industry. Adhering to our sustainable development philosophy and operating principles, we establish good environmental, social and corporate governance policies, 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 2017, and it covers the office operations of the headquarters of the Group and its principal subsidiaries as well as 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.

ENVIRONMENTAL PROTECTION

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

The Group strictly abides by the regulations and laws related to environmental protection applicable to its operations. It has established an internal "Environmental Policy of Energy Saving and Reducing Unnecessary Consumption" in accordance with all local regulations and laws of cities where its operations are located, including "Guidelines for Accounting and Reporting of the Greenhouse Gas Emissions for Industrial Enterprises", "Environmental Protection Law of the PRC" and "Water Pollution Prevention and Control Law of the PRC". Such internal policy covers guidelines on usage of resources and energy, and disposal and recycling of waste. In 2017 and 2016, the Group was not aware of any material non-compliance with environmental regulations and laws.

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED

The Group recognizes that efficiency in energy consumption will not only protect the environment but also reduce its operating cost. Therefore, the Group is continuously committed to promote the reduction of electricity, paper and water consumption during its regular operation, and to create a low-carbon workplace. The Group also 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. Number of plants was increased through the "Green Planting Campaign"; "Green Knowledge" bulletin boards were set up in our offices; green procurement was implemented. Our employees were encouraged to participate in environmental protection activities such as waste separation and tree planting, in order to promote the importance of environmental conservation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED

(Continued)

Energy-saving Measures

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

In the GDC Building (the "Shenzhen Building") of the Group located in Shenzhen, only two elevators were in service at weekends while others were shut down. Air-conditioners of elevators were only operated during office hours in the summer and air-conditioners in the elevators machine room were only switched on automatically when the room temperature was too high. Sensor lights were installed in public corridors of the Shenzhen Building and the number of lamps installed was reduced in order to reduce consumption of fuel for electricity generation. Variable frequency pumps for domestic water were used to save energy. Moreover, turn-on hours of decorative lights of the Shenzhen Building were adjusted while operating hours of landscaped pool were shortened substantially to further reduce consumption of electricity. During 2017, in response to the call of developing clean energy vigorously with an aim to reduce carbon emissions from the State, we have set up four new energy recharging facilities for vehicles in the car park of the Shenzhen Building, and plan to increase the number according to the needs in 2018.

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

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

Saving Papers

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REDUCTION OF POLLUTANTS, GREENHOUSE GASES AND SEWAGE DISCHARGED

(Continued)

The figures of 2017 and 2016 below cover the area of our offices in Hong Kong Headquarters, the Shenzhen Building and the Cultural Park.

Pollutants	**2017** *g*	2016 *g*
Vehicle teams of the Group		
Nitrogen oxides	**8,038.92**	8,954.74
Sulfur dioxide	**156.97**	160.98
Particulates	**591.89**	659.32

Greenhouse Gases Emissions	**2017** *tonnes*	2016 *tonnes*
Direct Emission (Scope 1)		
Vehicle teams of the Group	**28.92**	29.65
Refrigerants	**138.00**	276.00
Indirect Emission (Scope 2)		
Electricity	**1,833.80**	2,548.06
Indirect Emission (Scope 3)		
Paper consumption	**13.11**	31.11
Business travel *(Note 1)*	**127.38**	104.79
Total greenhouse gases emission saved from recycling papers	**(5.80)**	(4.99)
Total emission of greenhouse gases	**2,135.41**	2,984.62
Total emission of greenhouse gases per square metre of floor area *(tonne/m^2) (Note 2)*	**0.25**	0.33

Energy Consumption	**2017**	2016
Direct energy consumption – Gasoline *(litre)*	**10,678.40**	10,950.70
Direct energy consumption per employee – Gasoline *(litre)*	**26.90**	27.51
Indirect energy consumption – Electricity *(KWh)*	**2,000,476.00**	2,778,203.00
Indirect energy consumption per employee – Electricity *(KWh)*	**5,038.98**	6,980.41

Notes:

1 In 2017, we organized more marketing activities to promote the release of two original animated films and participated in the International Animated Film Festival in France, and hence there were more business air travel by employees than in 2016 resulting in higher indirect emission. The calculation of such emission is based on the emission factor used in ClimateCare Carbon Emissions Calculator.

2 During the year, the gross floor area of our own office was reduced by 673.77 m^2.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Waste Management

In 2017, the Group has continued to implement the "Provisions of Classification and Reduction of Domestic Waste" in the Shenzhen Building according to the "Measures of Administrating Classification and Reduction of Domestic Waste of Shenzhen" issued by the Shenzhen Urban Management Bureau. Waste separation bins were placed and harmless waste were properly recycled. Meanwhile, offices at various operating locations purchased eco-friendly stationeries and implemented measures including double-sided printing, recycling papers and toner cartridge recycling scheme. E-filing has been encouraged so as to reduce the consumption of papers and toners and thus reduce waste. During the year, paper consumption was significantly reduced; the Group also recycled approximately 1.21 tonnes of papers which was 0.23 tonnes more than in 2016, achieving a success in the reduction of carbon emission.

In 2017 and 2016, the Group has not used any packaging materials for its finished goods and has not produced any harmful waste.

Waste	Hong Kong Headquarters 2017 *tonnes*	Hong Kong Headquarters 2016 *tonnes*	The Shenzhen Building 2017 *tonnes*	The Shenzhen Building 2016 *tonnes*	The Cultural Park 2017 *tonnes*	The Cultural Park 2016 *tonnes*
Non-hazardous Waste						
Domestic waste	**1.00**	1.00	**7**	6.25	**2.00**	1.00
General office waste	**0.12**	0.10	**0.25**	0.25	**0.10**	0.10
Papers	**0.10**	0.11	**0.26**	0.38	**0.30**	0.50
Plastic	**0.02**	0.01	**0.06**	0.03	**0**	0
Wooden board	**0**	0	**0.09**	0.06	**0**	0
Glass	**0.01**	0	**0.06**	0.03	**0**	0

	2017	2016
Total waste disposed to landfill per square metre of floor area* *(tonne/m^2)*	**0.001**	0.001

Note: *During the year, the gross floor area of our own office was reduced by 673.77 m^2.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Water Usage Efficiency

In order to further enhance its water usage efficiency, the Group has installed automatic sensor faucets in the Shenzhen Building and substantially shortened the operating hours of its landscaped pool to save water. Further, the Group also has strengthened its checks for all the water valves and had regular overhauls in leak-proof water pipes of the Shenzhen Building to prevent the risk of leaking. By implementing the above-mentioned water usage efficiency enhancement programme, the water consumption in 2017 decreased by 1,195 m^3 as compared to that in 2016.

Water Consumption	**2017**	2016
Total amount of water used *(m^3) (Note 1)*	**9,992.00**	11,187.00
Amount of water used per square metre *(m^3/m^2) (Note 2)*	**1.26**	1.30

Notes:

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

2 During the year, the gross floor area of our own office was reduced by 673.77 m^2.

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)*

Employment and Labour Standards *(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. For the years 2017 and 2016, the Group was not aware of any material noncompliance with relevant labour laws and regulations, including hiring child labour or forced labour.

As at 31 December 2017, the Group has 397 employees (2016: 398).

Gender and Age Distribution by Position

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
Manager or above						
2017	**39**	**26**	**13**	**0**	**34**	**5**
2016	35	25	10	2	29	4
General staff						
2017	**358**	**239**	**119**	**71**	**273**	**14**
2016	363	210	153	201	155	7

Employee Turnover

	Male	Female	Aged under 30	Aged 30 to 50	Aged 50 and above
New employees					
2017	**102**	**64**	**95**	**63**	**8**
2016	90	56	114	32	0
Employee turnover					
2017	**109**	**56**	**59**	**100**	**6**
2016	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. 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 2017 and 2016, the Group was not aware of any material non-compliance of standards, rules and regulations related to occupational health and safety.

In 2017, 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 and installing fire distinguishers.
- Providing training courses for security guards to enhance their awareness of self-safety, and providing them with torches, alarms and other safety equipment.
- Arranging regular overhauls for vehicles of the Company to ensure their proper functioning so as to safeguard the safety of drivers.
- Organizing regular safety education seminars for tenants and employees and arranging fire trainings and drills.

Occupational Injury Data

	Male		Female		Overall	
	2017	2016	**2017**	2016	**2017**	2016
Number of staff involved in work-related fatalities	**0**	0	**0**	0	**0**	0
Lost days due to work-related accidents and occupational disease	**0**	0	**0**	0	**0**	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Occupational Injury Data *(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 organizes leisure and exercise activities for its employees regularly. A leisure area for its staff in the office of the Shenzhen Building was established, so that the staff from the creative department are able to find new inspiration at any time in the leisure area. Fitness and recreational facilities are also provided to allow its staff to lay down their jobs when necessary and take a break to "recharge" themselves before getting back to work.

Training and Development

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

In 2017, the Group had organized approximately 9 training courses, including a group and paper art exchange meeting under series of technical experience sharing sessions and GDC forum series, etc. organized by our CG creation and production division, with approximately 60 employees participated in each session.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

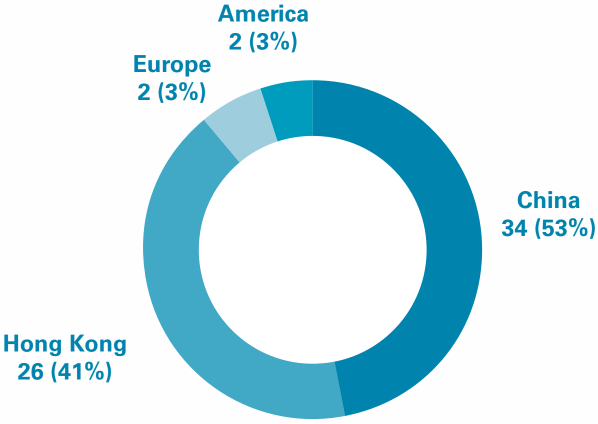
Supply Chain Management

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

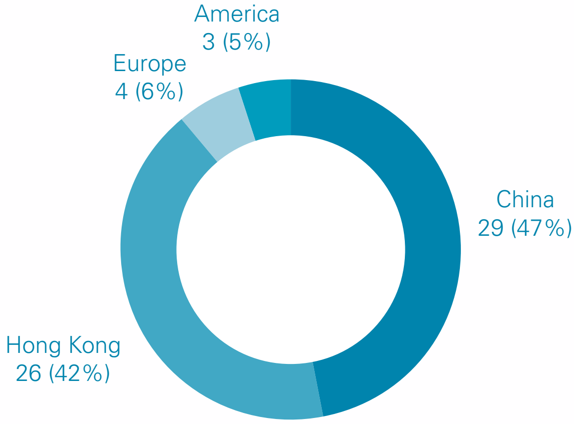
In order to avoid bias in the selection of suppliers, our administration department has compiled the List of Appropriate Suppliers. This saves time and money in identifying suppliers and ensures the quality of suppliers. At the same time, the Group carries out long-term quality monitoring and regular 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 that supplier.

In 2017, the Group had a total of 64 key suppliers (2016: 62). For the years 2017 and 2016, the Group was not aware that any key suppliers had any significant negative impact on business ethic, environmental protection, human rights and labour practices.

2017
GEOGRAPHICAL DISTRIBUTION
OF KEY SUPPLIERS



2016
GEOGRAPHICAL DISTRIBUTION
OF KEY SUPPLIERS



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES *(Continued)*

Product and Service Liability

As a company engaged in the cultural and creative industry, the Group recognizes the importance of putting effort to maintain and comply with intellectual property rights. Accordingly, the Group has formulated relevant internal measures and strictly implemented internal and external laws and regulations to prevent any inadvertent infringement of intellectual property rights of others in the process of creation, teaching and business operation. Furthermore, the Group applies for copyright registration for each original drama or film. In 2017 and 2016, the Group was not aware of any material non-compliance with relevant laws and regulations relating to its products.

The Group's property management division is constantly striving to provide tenants with high-quality property management services by conducting regular surveys and visits to tenants to collect feedbacks to improve the property management solution. Regarding the complaints about products and services of the business, the Group has established procedures for handling complaints and has arranged dedicated staff to follow up on each individual case. In 2017 and 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 the Company's data by employees, so as to further protect the personal data of the stakeholders.

ANTI-CORRUPTION

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

Upon discovery of any misconduct by any colleague or superior, an employee may inform the Group's internal audit manager or the Audit Committee directly through email in accordance with the "Whistleblowing Policy on Fraud", and each whistleblowing email is only available to the internal audit manager or the Audit Committee. Upon receipt of such whistleblowing email, the internal audit manager will immediately initiate an investigation according to the procedures and report the findings to the Chief Executive Officer and the Audit Committee. 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 2017 and 2016, the Group did not identify any significant risks associated with bribery and corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR COMMUNITY

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

In the past, the Group has donated computers through the Guangdong Provincial Education Foundation to poverty-stricken primary schools; collaborated with institutions to assist in used clothing recycling, donating those used clothing to villagers living in mountain areas. During the year, an animated film of the Group, "Toy Guardians", was released in August and it jointly organized the Qingdao Tournament of "National Screen Locking and Companionship Project" (「全國鎖屏陪伴計劃」) with Qingdao Haichang Polar Ocean World. The objective of the scheme is to hope that parents can put aside the phone, cherish the valuable time they spend with their children, and it is also the message "Toy Guardians" tried to convey. In addition, teachers and students group from Singapore Institute of Technical Education visited the Shenzhen Building for the Group's 3D animation training and production process, carried out an international cultural exchange in respect of cultural industry and talents educational development.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 58 to 128 of this annual report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 are set out in the sections headed "CHAIRMAN'S STATEMENT" and "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 9 to 10, and pages 11 to 18 respectively of this annual report. The discussion forms part of this report of the directors.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published consolidated results and assets and liabilities of the Group for the last five financial years are set out on page 129 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 14 to the consolidated financial statements.

Particulars of properties of the Group as at the end of the reporting period are set out on pages 100 to 101 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 15 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 pages 101 to 104 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 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 61 to 62 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were as follows:

Mr. Xu Liang *(appointed on 14 June 2017)*
Mr. Li Shaofeng *(resigned on 14 June 2017)*
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, Mr. Chen Zheng and Ms. Cheng Xiaoyu shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. Mr. Leung Shun Sang, Tony shall also retire from office by rotation at the forthcoming annual general meeting of the Company but shall not offer himself for re-election.

In accordance with clause 86(2) of the Bye-laws, Mr. Xu Liang, who was appointed as Executive Director effective from 14 June 2017, shall hold his office until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 5 to 7 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Xu Liang has entered into a service contract with the Company for a term commencing on 14 June 2017 and ending on 31 December 2019, 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 for a term of three years commencing from 1 January 2018, 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 of the Company has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

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

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

The Group has adopted a share option scheme as an incentive to the Directors and eligible employees, details of which are set out in "SHARE OPTION SCHEME" below and note 35 to the consolidated financial statements.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

		Number of shares/underlying shares held in the Company			
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests under equity derivatives**	**Total interests**	**Approximate percentage of total issued share capital of the Company**
Mr. Chen Zheng	Beneficial owner	185,988,200	–	185,988,200	12.25%
Mr. 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 2017, 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 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in "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 2017, none of the Directors had an interest in a business (other than those businesses where the Director was appointed as a Director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with businesses of the Group.

EQUITY-LINKED AGREEMENTS

Save for the "SHARE OPTION SCHEME" disclosed below, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

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

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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 positions in the shares of the Company

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

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

Save as disclosed above, as at 31 December 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.

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 is valid and effective for a period of 10 years.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

The total number of shares available for issue under the 2013 Share Option Scheme is 151,825,554, representing approximately 10% of the Company's total issued share capital as at the date of this annual report. Unless approved by shareholders of the Company, the total number of shares issued and 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 total share capital of the Company in issue.

A grant of an option can be made at any time as specified by the Board, so long as such grant is made within 10 years from the effective date of 2013 Share Option Scheme, being 18 June 2013. Once an offer of the grant of an option is made, a period of no more than 28 days will be given to accept such offer. On or before acceptance of the offer, HK$1.00 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 as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer of share options. The Board also has the absolute discretion to determine the minimum period an option must be held before it can be exercised.

Note:

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

No share option was granted since its adoption according to the 2013 Share Option Scheme. As at the date of this annual report, the remaining life of the 2013 Share Option Scheme is approximately 5 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 2017.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company did not have any reserves available for distribution.

THE GROUP'S PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk

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

Intellectual Property Risk

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

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

UPDATE ON LITIGATION

The Group is involved in a litigation during the year ended 31 December 2017. Details of the litigation are set out in note 43 to the consolidated financial statements on pages 126 to 127 of this annual report.

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 2017.

ENVIRONMENTAL PROTECTION

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 24% of the revenue for the year and the largest customer included therein amounted to approximately 7%. Purchases from the Group's five largest suppliers accounted for approximately 8% 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 total share capital) had any beneficial interest in the Group's five largest customers and suppliers.

RELATION WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

Employees

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

Customers

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

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

Suppliers

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

REPORT OF THE DIRECTORS

IMPORTANT EVENTS SINCE THE YEAR END

No important event occurred for the Group since the year ended 31 December 2017.

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 2017.

AUDITOR

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

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors subsequent to the date of the Company's interim report 2017 are as follows:

1) Mr. Xu Liang, an Executive Director and the Chairman of the Company, resigned as managing director but remains as the chairman and executive director of Shougang Grand on 6 January 2018. He has also become the general manager of Shougang Holding.

2) Ms. Cheng Xiaoyu, an Executive Director and the Vice President of the Company, has become the deputy general manager of Shougang Holding and director of Beijing Dongzhimen International Apartment Co., Ltd..

3) Mr. Kwong Che Keung, Gordon, an Independent Non-executive Director of the Company, was appointed as an independent non-executive director of Piraeus Port Authority S.A. (listed in Greece).

4) Mr. Lam Yiu Kin, an Independent Non-executive Director of the Company, was appointed as an independent non-executive director of Bestway Global Holding Inc. on 18 October 2017.

By Order of the Board

Xu Liang
Chairman

Hong Kong, 21 March 2018

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 58 to 128, which comprise the consolidated statement of financial position as at 31 December 2017, 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 15 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$439,616,000 as at 31 December 2017 (2016: HK$409,263,000) 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 43 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.

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

INDEPENDENT AUDITOR'S REPORT

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 First 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 First 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 as at 31 December 2017 of approximately HK$439,616,000 (2016: HK$409,263,000) and record the rentals receivable from lessees as the Group's revenue for the year then ended of approximately HK$46,704,000 (2016: HK$44,052,000), 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 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 中國廣東省高級人民法院 ("Guangdong Higher People's Court").

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

The management of the Company and Guangdong Cultural Park (the "Management") is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these further actions to be carried out by the Management (the "Further Actions"), the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

Depending on the ultimate outcome of the Further Actions, 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 Further Actions cannot be assessed at this stage. In view of the significant uncertainty relating to the ultimate outcome of the Further Actions and its pervasive impact on the consolidated financial statements, we disclaim our opinion in respect of the year ended 31 December 2017. This also caused us to disclaim our opinion on the consolidated financial statements in respect of the year ended 31 December 2016.

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
21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**133,915**	146,759
Cost of sales		**(90,319)**	(78,330)
Gross profit		**43,596**	68,429
Other income	8	**14,786**	22,580
Distribution costs and selling expenses		**(22,908)**	(3,812)
Administrative expenses		**(55,357)**	(65,284)
Impairment loss on investment properties	15	**–**	(84,467)
Decrease in fair value of investment properties	15	**(579)**	–
Other gains and losses	9	**(2,432)**	(27,138)
Share of results of an associate		**(23)**	–
Loss before tax		**(22,917)**	(89,692)
Income tax expense	10	**(1,098)**	(5,602)
Loss for the year	11	**(24,015)**	(95,294)
Other comprehensive income (expenses):			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		**58,601**	(55,217)
Item that may be reclassified subsequently to profit or loss:			
Decrease in fair value of available-for-sale investment	25	**(4,057)**	(1,508)
Other comprehensive income (expenses) for the year		**54,544**	(56,725)
Total comprehensive income (expenses) for the year		**30,529**	(152,019)
(Loss) profit for the year attributable to:			
Owners of the Company		**(29,295)**	(62,158)
Non-controlling interests		**5,280**	(33,136)
		(24,015)	(95,294)
Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		**23,606**	(116,767)
Non-controlling interests		**6,923**	(35,252)
		30,529	(152,019)
		HK cents	*HK cents*
Loss per share	13		
Basic		**(1.93)**	(4.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**200,373**	199,086
Investment properties	15	**439,616**	409,263
Prepaid lease payments	16	**5,071**	4,837
Interest in an associate	17	**–**	–
Restricted bank deposit	18	**46,253**	17,797
		691,313	630,983
Current assets			
Programmes	19	**8,341**	–
Productions work in progress	20	**6,403**	19,416
Amounts due from customers for contract work	21	**–**	2,455
Trade receivables	22	**21,179**	20,085
Other receivables and deposits	23	**6,152**	9,252
Amount due from an associate	24	**995**	–
Prepaid lease payments	16	**132**	123
Available-for-sale investment	25	**–**	20,936
Structured deposits	26	**1,686**	19,007
Bank balances and cash	27	**294,687**	274,528
		339,575	365,802
Current liabilities			
Advances from customers	28	**5,184**	4,733
Amounts due to customers for contract work	21	**–**	101
Trade payables	29	**1,653**	2,426
Other payables and accruals	30	**92,625**	77,682
Tax liabilities		**9,224**	10,719
Derivative financial instrument	31	**–**	16,879
Deferred income	32	**2,443**	512
		111,129	113,052
Net current assets		**228,446**	252,750
Total assets less current liabilities		**919,759**	883,733
Non-current liabilities			
Deferred income	32	**2,657**	121
Deferred tax liabilities	33	**41,347**	38,386
		44,004	38,507
Net assets		**875,755**	845,226

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTE	**2017** ***HK$'000***	2016 *HK$'000*
Capital and reserves			
Share capital	*34*	**15,183**	15,183
Reserves		**835,490**	811,884
Equity attributable to owners of the Company		**850,673**	827,067
Non-controlling interests		**25,082**	18,159
Total equity		**875,755**	845,226

The consolidated financial statements on pages 58 to 128 were approved and authorised for issue by the Board of Directors on 21 March 2018 and are signed on its behalf by:

Xu Liang	**Chen Zheng**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 2016	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 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
(Loss) profit for the year	–	–	–	–	–	–	–	–	(29,295)	(29,295)	5,280	(24,015)
Exchange differences on translation to presentation currency	–	–	–	–	–	–	56,958	–	–	56,958	1,643	58,601
Decrease in fair value of available-for-sale investment	–	–	–	–	–	(4,057)	–	–	–	(4,057)	–	(4,057)
Other comprehensive (expenses) income for the year	–	–	–	–	–	(4,057)	56,958	–	–	52,901	1,643	54,544
Total comprehensive (expenses) income for the year	–	–	–	–	–	(4,057)	56,958	–	(29,295)	23,606	6,923	30,529
Sub-total	15,183	75,856	445	245,881	4,316	–	17,653	(1,209)	492,548	850,673	25,082	875,755
Transfer to statutory reserve	–	–	–	–	146	–	–	–	(146)	–	–	–
At 31 December 2017	15,183	75,856	445	245,881	4,462	–	17,653	(1,209)	492,402	850,673	25,082	875,755

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

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 2017

	NOTES	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(22,917)**	(89,692)
Adjustments for:			
Allowance for doubtful debts		**2,435**	316
Amortisation of prepaid lease payments		**127**	128
Changes in fair value of structured deposits		**(5)**	(35)
Decrease in fair value of investment properties	15	**579**	–
Depreciation of property, plant and equipment		**16,741**	20,016
Government grants related to computer equipment acquisition and specific projects		**(530)**	(8,112)
Impairment loss on investment properties	15	**–**	84,467
Impairment loss on programmes		**11,001**	–
Interest income		**(6,810)**	(4,859)
Loss on disposal of property, plant and equipment		**2**	174
Loss on fair value changes of derivative financial instrument	31	**–**	201
Share of results of an associate		**23**	–
Write-off of construction deposit		**–**	23,310
Operating cash flows before movements in working capital		**646**	25,914
Increase in programmes		**(7,661)**	–
Decrease (increase) in productions work in progress		**3,475**	(13,582)
Decrease in amounts due from customers for contract work		**2,546**	5,028
(Increase) decrease in trade receivables		**(1,589)**	9,665
Decrease (increase) in other receivables and deposits		**3,659**	(1,744)
Increase (decrease) in advances from customers		**90**	(1,694)
Decrease in amounts due to customers for contract work		**(105)**	(399)
(Decrease) increase in trade payables		**(922)**	188
Increase in other payables and accruals		**8,743**	32,185
Increase in restricted bank deposit		**(26,138)**	(17,797)
Cash (used in) generated from operations		**(17,256)**	37,764
Income tax paid		**(3,266)**	(4,777)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(20,522)**	32,987

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Redemption of structured deposits		**1,124,306**	877,389
Interest received		**6,810**	4,859
Government grants received related to assets	32	**4,792**	–
Proceeds from disposal of property, plant and equipment		**3**	200
Investment in structured deposits		**(1,106,250)**	(753,963)
Purchase of property, plant and equipment		**(4,486)**	(2,857)
Advances to an associate		**(955)**	–
Investment in an associate		**(23)**	–
Settlement of construction cost payables		**–**	(12,874)
NET CASH FROM INVESTING ACTIVITIES		**24,197**	112,754
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,675**	145,741
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**274,528**	137,317
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**16,484**	(8,530)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, COMPRISING BANK BALANCES AND CASH		**294,687**	274,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

The Company is an investment holding company. 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 2017 are set out in note 42.

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

2. APPLICATION OF NEW AND REVISED 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 ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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 2017

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised 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]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

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 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED 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 financial assets are measured at their fair value at 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 *Financial Instruments: Recognition and Measurement* ("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 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

All financial assets and liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and other receivables and deposits. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED 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.

Based on the existing business model as at 31 December 2017, the Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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* ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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 2017, the Group as lessee has non-cancellable operating lease commitments of approximately HK$401,258,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$829,000 and refundable rental deposits received of HK$15,558,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for 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 2017

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, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("HKAS 36").

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 in line with the Group's accounting policies.

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

Investment in an associate

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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 allowance.

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

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

Management service fee income is recognised when services are provided.

Dividend income from investments is recognised when the Group's 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 2017

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 2017

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 amount 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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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 items 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Programmes and productions work in progress

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

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.

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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.

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

Fair value is determined in the manner described in note 41c.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets *(Continued)*

For available-for-sale equity investment that is measured at fair value once fair value is determined reliably, dividend on available-for-sale equity investment are 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 when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment loss of financial assets *(Continued)*
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.

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

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 its 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on assets *(Continued)*

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 2017

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 2017 and 2016, 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 2017, the carrying amount of construction deposit is HK$Nil, net of accumulated impairment loss of HK$24,010,000 (2016: HK$Nil, net of accumulated impairment loss of HK$23,310,000).

As at 31 December 2017, the carrying amount of properties interest under construction is HK$Nil, net of accumulated impairment loss of HK$87,002,000 (2016: HK$Nil, net of accumulated impairment loss of HK$84,467,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 engage independent professional valuers to perform the valuation. The Group works closely with the independent professional valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments and investment properties. Notes 15 and 41c 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 2017 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 15) governing Phase I of the Pearl River Film Cultural Park (as defined in note 15) 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 2017 is HK$439,616,000 (2016: HK$409,263,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Key sources of estimation uncertainty *(Continued)*

Useful lives and impairment of property, plant and equipment

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

When there is an indication that the asset has suffered an impairment loss, the Group estimates the recoverable amount of the CGU in which these property, plant and equipment are allocated to. The recoverable amount is the higher of the fair value less cost 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 or loss. As at 31 December 2017, the carrying amount of property, plant and equipment is HK$200,373,000 (2016: HK$199,086,000).

Estimation of impairment loss on programmes and productions work in progress

As at 31 December 2017, the carrying amount of programmes is HK$8,341,000, net of accumulated impairment loss of HK$11,001,000 (2016: HK$Nil, net of impairment loss of HK$Nil). As at 31 December 2017, the carrying amount of productions work in progress is HK$6,403,000 (2016: HK$19,416,000). The management of the Group reviews the net realisable value of these programmes and productions work in progress on a project by project basis at the end of the reporting period and makes impairment loss on programmes and 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 prices and estimated costs, additional impairment might be required.

5. REVENUE

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

	2017	2016
	HK$'000	*HK$'000*
Revenue from contracts for CG creation and production *(note)*	**26,127**	43,340
Rental and building management service fee income	**101,339**	97,166
CG training fee	**6,449**	6,253
	133,915	146,759

Note: During the year ended 31 December 2017, an amount of approximately HK$14,276,000 (2016: HK$Nil) is attributable to revenue from the release of two animated films based on an agreed sharing percentage of the box office receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 reportable segments of the Group.

Segment revenue and results

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

For the year ended 31 December 2017

	CG creation and production *HK$'000*	CG training *HK$'000*	Cultural park *HK$'000*	Consolidated *HK$'000*
Revenue	80,762	6,449	46,704	133,915
Segment results	(23,451)	792	17,196	(5,463)
Unallocated income and other gains and losses				748
Unallocated expenses				(18,202)
Loss before tax				(22,917)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION *(Continued)*

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 results	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)

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 for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

At 31 December 2017

	CG creation and production *HK$'000*	**CG training** *HK$'000*	**Cultural park** *HK$'000*	**Consolidated** *HK$'000*
Assets				
Segment assets	**481,119**	**1,399**	**500,602**	**983,120**
Unallocated assets				
– Bank balances and cash				**45,575**
– Others				**2,193**
Consolidated total assets				**1,030,888**
Liabilities				
Segment liabilities	**63,210**	**2,497**	**87,387**	**153,094**
Unallocated liabilities				
– Others				**2,039**
Consolidated total liabilities				**155,133**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

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 2017

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2017

	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)*	4,456	–	–	4,456	30	4,486
Depreciation of property, plant and equipment	15,802	129	224	16,155	586	16,741
Loss on disposal of property, plant and equipment	–	–	–	–	2	2
Impairment loss on programmes	11,001	–	–	11,001	–	11,001
Allowance for doubtful debts (reversed) recognised, net	(314)	–	2,749	2,435	–	2,435
Share of results of an associate	23	–	–	23	–	23
Amortisation of prepaid lease payments	127	–	–	127	–	127
Interest income	(6,029)	(22)	(10)	(6,061)	(749)	(6,810)
Government grants	(7,749)	(35)	–	(7,784)	–	(7,784)

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 debts recognised	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

Note: Non-current assets exclude restricted bank deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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)*	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**133,242**	117,636	**643,678**	611,243
Denmark	**334**	13,951	**–**	–
USA	**261**	14,509	**–**	–
France	**78**	–	**–**	–
India	**–**	663	**–**	–
Hong Kong	**–**	–	**1,382**	1,943
	133,915	146,759	**645,060**	613,186

Note: Non-current assets exclude restricted bank deposit.

Information about major customers

During the years ended 31 December 2017 and 2016, 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 2017

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

(a) Directors' and chief executive's emoluments

The Directors' and chief executive's remuneration for the year ended 31 December 2017 amounted to HK$7,483,000 (2016: HK$7,483,000), disclosed pursuant to the applicable GEM Listing Rules and CO, details are as follows:

For the year ended 31 December 2017

	Mr. Xu Liang[(1)] *HK$'000*	Mr. Li Shaofeng[(2)] *HK$'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 benefit scheme contributions	–	–	180	18	75	273
	–	–	3,780	1,218	1,575	6,573

Notes:

(1) Appointed on 14 June 2017
(2) Resigned on 14 June 2017

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 2017

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

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

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 benefit scheme contributions	–	180	18	75	273
	–	3,780	1,218	1,575	6,573

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

	Mr. Leung Shun Sang, Tony *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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: three) are the directors whose emoluments are included in the disclosures above. The emoluments of the remaining two (2016: two) individuals are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**2,135**	2,107
Retirement benefit scheme contributions	**36**	36
	2,171	2,143

The emoluments of the above two (2016: two) individuals are within the following bands:

	2017	2016
	Number of employees	Number of employees
HK$1,000,000 or below	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

8. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Government grants *(note)*	**7,784**	17,606
Interest income	**6,810**	4,859
Others	**192**	115
	14,786	22,580

Note: During the year ended 31 December 2017, government grants included subsidies and awards of HK$7,254,000 (2016: HK$9,494,000) received from the relevant authorities in the 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$530,000 (2016: HK$8,112,000) 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 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Allowance for doubtful debts	**(2,435)**	(316)
Loss on disposal of property, plant and equipment	**(2)**	(174)
Loss on fair value changes of derivative financial instrument *(note 31)*	**–**	(201)
Changes in fair value of structured deposits	**5**	35
Write-off of construction deposit *(note 15)*	**–**	(23,310)
Late payment surcharges on overdue rental *(note 15)*	**–**	(3,172)
	(2,432)	(27,138)

10. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
The income tax expense comprises:		
PRC Enterprise Income Tax ("EIT")		
Current tax	**1,029**	6,651
Under(over)provision in prior years	**14**	(509)
	1,043	6,142
Deferred tax *(note 33)*	**55**	(540)
	1,098	5,602

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 the State Administration of Taxation for the tax policies on the animation enterprise (Caishui [2009] No. 65), the PRC subsidiaries which are qualified as animation enterprises are entitled to tax concession, whereby their applicable tax rates will progressively increase to 25%. The tax concession was 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 the State Administration of Taxation 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 is qualified as ATSE. Furthermore, according to the Circular of the State Administration of Taxation on the issues concerning implementation of the preferential income tax for hi-tech enterprise (Guoshui Han [2009] No. 203), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 2017 to 2020 as it is qualified as hi-tech enterprise. For the year ended 31 December 2017, the relevant tax rates for the Group's subsidiaries in the PRC was ranged from 15% to 25% (2016: 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 2017

10. INCOME TAX EXPENSE *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Loss before tax	**(22,917)**	(89,692)
Tax calculated at the PRC EIT rate of 25% (2016: 25%)	**(5,729)**	(22,423)
Tax effect of income not taxable for tax purpose	**(344)**	(1,381)
Tax effect of expenses not deductible for tax purpose	**4,432**	4,917
Tax effect of deductible temporary differences not recognised	**–**	21,117
Under(over)provision in respect of prior years	**14**	(509)
Tax effect of tax losses not recognised	**4,665**	4,370
Utilisation of tax losses previously not recognised	**(3,115)**	(289)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,175**	(120)
Others	**–**	(80)
Income tax expense for the year	**1,098**	5,602

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:

	2017	2016
	HK$'000	*HK$'000*
Estimated tax losses that may be carried forward	**71,496**	63,665

The estimated tax losses are available for offset against future profits subject to approval from the relevant tax authority. As at 31 December 2017, included in unrecognised tax losses are losses of HK$Nil, HK$305,000, HK$3,416,000, HK$3,876,000, HK$7,852,000 that will expire in 2018, 2019, 2020, 2021 and 2022, respectively. 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. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$87,002,000 (31 December 2016: HK$84,467,000) in respect of the 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$173,622,000 as at 31 December 2017 (2016: HK$155,724,000) 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 2017

11. LOSS FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(note 7a)*:		
– Salaries, wages and other benefits	**79,996**	89,105
– Retirement benefit scheme contributions	**5,372**	5,280
Total staff costs	**85,368**	94,385
Less: amounts included in contract costs	**(2,889)**	(10,877)
amounts included in productions work in progress	**(22,486)**	(11,120)
	59,993	72,388
Impairment loss on programmes (included in cost of sales)	**11,001**	–
Amortisation of prepaid lease payments	**127**	128
Auditor's remuneration	**1,500**	1,560
Depreciation of property, plant and equipment	**17,636**	22,445
Less: amounts included in contract costs	**–**	(1,260)
amounts included in productions work in progress	**(895)**	(1,169)
	16,741	20,016
Exchange gain, net	**(82)**	(745)
Minimum lease payments under operating leases	**18,816**	19,119
Gross rental income from investment properties	**(30,072)**	(27,475)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**2,463**	2,728
	(27,609)	(24,747)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. DIVIDENDS

No dividend is paid, declared or proposed during the years ended 31 December 2017 and 2016, and no dividend has been proposed since the end of the reporting period.

13. LOSS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(29,295)**	(62,158)

	2017	2016
	'000	*'000*
Number of shares		
Number of ordinary shares for the purposes of basic loss per share	**1,518,256**	1,518,256

No diluted loss per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. 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 2016	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
Exchange realignment	13,842	1,782	5,048	460	4,123	187	25,442
Additions	–	–	–	120	4,366	–	4,486
Disposals	–	(480)	–	(207)	(84)	–	(771)
At 31 December 2017	196,859	27,087	71,791	7,094	62,596	4,879	370,306
DEPRECIATION AND AMORTISATION							
At 1 January 2016	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
Exchange realignment	1,914	1,242	3,490	394	3,811	149	11,000
Provided for the year	3,931	2,868	7,167	1,749	1,746	175	17,636
Eliminated on disposals	–	(480)	–	(206)	(80)	–	(766)
At 31 December 2017	29,219	19,657	53,277	6,565	56,777	4,438	169,933
CARRYING VALUES							
At 31 December 2017	167,640	7,430	18,514	529	5,819	441	200,373
At 31 December 2016	159,643	9,758	24,123	2,093	2,891	578	199,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. 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 2017 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 years ended 31 December 2017 and 2016.

15. INVESTMENT PROPERTIES

	Completed properties *HK$'000*	Properties interest under construction *HK$'000*	Total *HK$'000*
At 1 January 2016	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
Decrease in fair value recognised in profit or loss	(579)	–	(579)
Exchange realignment	30,932	–	30,932
At 31 December 2017	439,616	–	439,616

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").

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. INVESTMENT PROPERTIES *(Continued)*

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

The 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, less impairment as the fair value could not be reliably measured as at 1 January 2016. 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 43 for details).

Guangdong Cultural Park has received the civil judgment issued on 11 October 2016 by Guangzhou Intermediate People's Court (the "First Civil Judgment"), which declared that the Framework Agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of 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 the Guangzhou Intermediate People's Court requesting for an order that the First 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 First 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 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 Higher People's Court of Guangdong Province of the PRC (中國廣東省高級人民法院) ("Guangdong Higher People's Court").

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

15. INVESTMENT PROPERTIES *(Continued)*

The management of the Company and Guangdong Cultural Park (the "Management") is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these further actions to be carried out by the Management (the "Further Actions"), the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

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 2017 and 2016. The fair value of the Group's investment properties as at 31 December 2017 and 2016 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 as at 31 December 2017 of approximately HK$439,616,000 (2016: HK$409,263,000) and record the rentals receivable from lessees as the Group's revenue of approximately HK$46,704,000 (2016: 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 for the property leasing right 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 for the property leasing right to Pearl River Film Production with the assumptions as described above and the allocation basis of the operating lease payments between Phase I and Phase II of 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.

Key inputs used in valuing the investment properties include discount rate which ranges from 6.6% to 7.1% (2016: 6.5% to 7%) or risk premium of 3.5% (2016: 3.5%) and market rental which ranges from RMB47 to RMB525 (2016: RMB44 to RMB500) per square metre per month or land yield rate of 5% (2016: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. INVESTMENT PROPERTIES *(Continued)*

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Level 3	**Fair value as at 31 December 2017**
	HK$'000	***HK$'000***
Pearl River Film Cultural Park Phase I	**439,616**	**439,616**

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

There was no transfer between different levels during the year.

16. PREPAID LEASE PAYMENTS

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

	2017	2016
	HK$'000	*HK$'000*
Current	**132**	123
Non-current	**5,071**	4,837
	5,203	4,960

17. INTEREST IN AN ASSOCIATE

	2017	2016
	HK$'000	*HK$'000*
Cost of investment in an associate-unlisted	**23**	–
Share of post-acquisition results and other comprehensive income	**(23)**	–
	–	–

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For the year ended 31 December 2017

17. INTEREST IN AN ASSOCIATE *(Continued)*

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

Name of associate	Place of incorporation/ principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
		2017	2016	**2017**	2016	
環球數碼媒體科技(澳門)有限公司 G.D.C Institute of Digital Media Technology (Macau) Limited ("IDMT (Macau)")	Macau	**49%**	–	**16.7%**	–	Provision of CG creation and production services

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

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

18. RESTRICTED BANK DEPOSIT

Guangzhou Intermediate People's Court granted an order to preserve the bank deposit of Guangdong Cultural Park and the bank account was frozen on 6 May 2016 pursuant to the legal proceedings against Guangdong Cultural Park in respect of an Alleged Breach (please refer to note 43 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 Further Actions cannot be assessed at this stage.

19. PROGRAMMES

	2017	2016
	HK$'000	*HK$'000*
Television series, net of allowance of approximately HK$11,001,000 (2016: HK$Nil)	**5,102**	–
Movies	**3,239**	–
	8,341	–

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

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20. PRODUCTIONS WORK IN PROGRESS

	2017	2016
	HK$'000	*HK$'000*
Television series	**527**	3,474
Movies	**5,876**	15,942
	6,403	19,416

During the year, the Group transferred approximately HK$36,740,000 (2016: HK$Nil) of productions work in progress to programmes when the projects were completed.

21. 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:

	2017	2016
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses	**4,020**	24,812
Less: progress billings	**(4,020)**	(22,458)
	–	2,354
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**–**	2,455
Amounts due to customers for contract work	**–**	(101)
	–	2,354

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For the year ended 31 December 2017

22. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**21,179**	20,085

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:

	2017	2016
	HK$'000	*HK$'000*
Within three months	**19,932**	17,142
Three to six months	**820**	645
Over six months	**427**	2,298
	21,179	20,085

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.

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$1,770,000 (2016: HK$3,651,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. TRADE RECEIVABLES *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Within three months	**523**	899
Three to six months	**820**	645
Over six months	**427**	2,107
	1,770	3,651

Movements in the allowance for doubtful debts

	2017	2016
	HK$'000	*HK$'000*
1 January	**303**	–
Impairment losses recognised on receivables	**2,749**	316
Amounts recovered during the year	**(314)**	–
Exchange realignment	**113**	(13)
31 December	**2,851**	303

23. OTHER RECEIVABLES AND DEPOSITS

	2017	2016
	HK$'000	*HK$'000*
Deposits	**967**	887
Other receivables and prepayments	**5,185**	8,365
	6,152	9,252

24. AMOUNT DUE FROM AN ASSOCIATE

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

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25. AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	HK$'000	*HK$'000*
Equity interest in GDC Technology Limited ("GDC Tech") *(Note)*	**–**	20,936

Note: 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 currently held by GDC Holdings (i.e. 29,779,777 shares, representing approximately 11.38% of the issued share capital of GDC Tech) 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 announcements of the Company dated 16 October 2014, 14 November 2014, 28 November 2014, 19 December 2014, 24 December 2014, 26 February 2015 and 28 June 2017 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 was recognised under investment revaluation reserve.

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 and the cumulative gain amounted to approximately HK$20,789,000 previously accumulated in the investment revaluation reserve was reclassified to profit or loss. Pursuant to the sale and purchase agreement, 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 following a formula set out in the sale and purchase agreement.

As at 31 December 2016, the fair value of this available-for-sale investment was 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 loss of approximately HK$1,508,000 is recognised under investment revaluation reserve. Approximately HK$20,936,000 was 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.

On 28 June 2017, all the conditions precedent had been fulfilled and pursuant to the sale and purchase agreement, the remaining 5,955,955 GDC Tech shares were disposed of to Huayi Brothers at the nominal consideration of US$1 under the adjustment following the formula as set out in the sales and purchase agreement. As a result, the available-for-sale investment of approximately HK$20,936,000 was derecognised on 28 June 2017. The related derivative financial instrument, which was initially recognised at fair value on 26 February 2015 when the derivative contract was entered into and carried at its fair value at the end of the subsequent reporting periods, was also derecognised on 28 June 2017 with details set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. STRUCTURED DEPOSITS

	2017	2016
	HK$'000	*HK$'000*
Principal-protected financial products	**1,686**	19,007

The structured deposits as at 31 December 2017 and 2016 are principal-protected deposits issued by banks in the PRC. As at 31 December 2017, the principal-protected deposits carry expected interest rate at 3.9% (2016: 2.6%) 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 deposits, which is based on the prices the counterparty banks would pay to redeem at 31 December 2017 and 2016, respectively, approximate to their carrying values at 31 December 2017 and 2016.

The structured deposits as at 31 December 2017 have been redeemed in January 2018. The change in fair value up to the date of redemption is not significant.

27. BANK BALANCES AND CASH

As at 31 December 2017, bank balances (including fixed deposits) carry interests at market rates which range from 0.01% to 3.35% per annum (2016: 0.01% to 1.57% per annum).

28. ADVANCES FROM CUSTOMERS

	2017	2016
	HK$'000	*HK$'000*
Receipt in advance from students	**1,766**	1,653
Deposits and advances from customers	**3,418**	3,080
	5,184	4,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

29. 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:

	2017	2016
	HK$'000	*HK$'000*
Within three months	**757**	1,528
Three to twelve months	**–**	50
Over one year	**896**	848
	1,653	2,426

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.

30. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Accruals	**13,515**	17,052
Accrued rental payable and late payment surcharge *(note a)*	**30,798**	14,302
Construction cost payables	**2,489**	2,634
Other tax payables	**1,163**	1,669
Receipt in advance *(note b)*	**18,007**	16,741
Rental deposits from tenants	**15,558**	14,229
Others	**11,095**	11,055
	92,625	77,682

Notes:

(a) As at 31 December 2017, accrued rental payable represents the accrued monthly payments for the property leasing right of the Pearl River Film Cultural Park of approximately HK$27,530,000 (2016: HK$11,264,000), which was overdue since March 2016.

In addition, an amount of approximately HK$3,268,000 (2016: HK$3,038,000) is related to accrued late payment surcharge for the overdue rentals of the Pearl River Film Cultural Park for the period from 1 October 2015 to 21 March 2016 as imposed by the First Civil Judgment (please refer to note 43 for details).

(b) In December 2016, a subsidiary of the Company has entered into a memorandum of understanding with an independent third party and received an advance payment of RMB15,000,000. The advance payment is unsecured, non-interest bearing and has no fixed repayment terms. The subsidiary of the Company is negotiating with the independent third party on the terms and conditions for such CG production development projects in Foshan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 should be sold and transferred to Huayi Brothers in 2017 at US$0.4778 per share, subject to adjustment following a formula set out in the sale and purchase agreement and the related derivative financial instrument was initially recognised at fair value on 26 February 2015 when derivative contracts are entered into and are subsequently remeasured at fair value at the end of the subsequent reporting periods. The management of the Group considered 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 had 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 sales and purchase agreement. At 31 December 2016, the derivative financial instrument was stated at a fair value of HK$16,879,000. The derivative financial instrument was reclassified as current liability based on the terms of the sale and purchase agreement that the remaining 5,955,955 GDC Tech shares should be sold and transferred to Huayi Brothers in first half of 2017.

On 28 June 2017, all the conditions precedent had been fulfilled and pursuant to the sale and purchase agreement, the remaining 5,955,955 GDC Tech shares were disposed of to Huayi Brothers at the nominal consideration of US$1 under the adjustment following the formula as set out in the sale and purchase agreement. The derivative financial instrument of approximately HK$16,879,000 was derecognised on 28 June 2017.

The details of fair value measurement of the derivative financial instrument is disclosed in note 41c.

32. DEFERRED INCOME

	2017	2016
	HK$'000	*HK$'000*
Deferred income related to government grants:		
Current portion	**2,443**	512
Non-current portion	**2,657**	121
	5,100	633

In 2017, the Group received government subsidies and awards of HK$4,792,000 (2016: HK$Nil) 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 will be transferred to income upon the completion of the relevant projects in the coming years or over the useful lives of the relevant assets, which is 1 to 5 years. A credit to income of HK$530,000 (2016: HK$8,112,000) is resulted in the current year. As at 31 December 2017, an amount of HK$5,100,000 (2016: HK$633,000) remains to be amortised. The current portion of HK$2,443,000 (2016: HK$512,000) represents the grants to be amortised to profit or loss next year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities 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 2016	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
(Credit) charge to profit or loss for the year	(145)	200	55
Exchange realignment	2,688	218	2,906
At 31 December 2017	38,133	3,214	41,347

34. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 2017	2,400,000,000	24,000
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 2017	1,518,255,540	15,183

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35. 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.

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 2017 and 2016.

36. 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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**16,312**	15,800
In the second to fifth year inclusive	**65,502**	60,215
Over fifth year	**319,444**	321,429
	401,258	397,444

Operating lease payments represent 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 15). 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 lawsuits 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 (2016: 1 to 12 years).

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For the year ended 31 December 2017

36. OPERATING LEASES *(Continued)*

The Group as lessor *(Continued)*

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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**71,014**	59,148
In the second to fifth year inclusive	**159,814**	130,221
Over fifth year	**49,812**	18,233
	280,640	207,602

37. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment properties	**8,392**	7,802

38. RETIREMENT BENEFIT SCHEMES

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

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

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong and the PRC (collectively the "Retirement Schemes"). No contributions payable to the Retirement Schemes as at 31 December 2017 and 2016 are included in other payables and accruals. There was no forfeited contribution in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2017	2016
	HK$'000	*HK$'000*
Short-term benefits	**10,321**	10,253
Post-employment benefits	**360**	360
	10,681	10,613

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

40. CAPITAL RISK MANAGEMENT

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. FINANCIAL INSTRUMENTS

41a. Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investment	**–**	20,936
Financial assets at FVTPL	**1,686**	19,007
Loans and receivables (including bank balances and cash)	**364,147**	316,767
Financial liabilities		
Derivative financial instrument at fair value	**–**	16,879
Amortised cost	**52,071**	50,123

41b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, restricted bank deposit, trade receivables, other receivables, structured deposits, amount due from an associate, 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 HK$ which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposures. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2017 and 2016, the Group has no significant foreign currency exposure and therefore, no sensitivity analysis is presented.

(ii) Interest rate risk

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

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For the year ended 31 December 2017

41. FINANCIAL INSTRUMENTS *(Continued)*

41b. Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2017 and 2016, 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 and cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk for its trade receivables by geographical locations is mainly in the PRC (2016: PRC) in 2017, which accounted for approximately 98% (2016: 88%) of the total trade receivables.

The Group has concentration of credit risk by counterparty as approximately 21% (2016: 11%) and approximately 25% (2016: 12%) 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 distributors and technology companies. 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 bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rates, the undiscounted cash flows are estimated by using interest rate at the end of the reporting period.

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41. FINANCIAL INSTRUMENTS *(Continued)*

41b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity table

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows as at 31.12.2017	Carrying amount as at 31.12.2017
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2017					
Non-derivative financial liabilities					
Trade payables	–	762	891	1,653	1,653
Other payables	–	1,499	48,919	50,418	50,418
		2,261	49,810	52,071	52,071

	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*
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

41c. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. FINANCIAL INSTRUMENTS *(Continued)*

41c. 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 2017	Fair value as at 31 December 2016	Fair value hierarchy	Valuation technique and key inputs	Relationship of unobservable inputs to fair value
Available-for-sale investment	N/A	Unlisted equity security HK$20,936,000	Level 3	Market approach Valuation multiples of similar companies	The higher the valuation multiples, the higher the fair value
Derivative financial instrument	N/A	Derivative financial instrument: HK$16,879,000	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$1,686,000	Bank deposits in the PRC with non-closely related embedded derivative: HK$19,007,000	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$5,000 (2016: HK$35,000) is recognised in profit or loss relating to the change in fair value of structured deposits. Fair value gain on structured deposits is included in "other gains and losses".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. FINANCIAL INSTRUMENTS *(Continued)*

41c. 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$Nil (2016: loss of HK$201,000) 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".

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.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2017	2016	**2017**	2016	
			%	%	**%**	%	
GDC Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	US$5,214,181 (ordinary share)	**100**	100	**–**	–	Investment holding
GDC Asset Management Limited	BVI/Hong Kong	US$1 (ordinary share)	**–**	–	**100**	100	Animation investment
GDC China Limited	Hong Kong	HK$2 (ordinary share)	**–**	–	**100**	100	Investment holding
GDC International Limited	Samoa/Hong Kong	US$1 (ordinary share)	**–**	–	**100**	100	Provision of CG animation creation and production services
GDC Management Services Limited	Hong Kong	HK$2 (ordinary share)	**–**	–	**100**	100	Provision of administration and management service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2017	2016	**2017**	2016	
			%	%	**%**	%	
GDC Cultural Parks Limited (formerly known as Shougang GDC Media Holding Limited)	Hong Kong	HK$1 (ordinary share)	**–**	–	**100**	100	Investment holding
GDC International Limited	Hong Kong	HK$1 (ordinary share)	**–**	–	**100**	100	Provision of CG animation creation and production services
廣東環球數碼創意產業有限公司 *(note a)*	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 *(note b)*	PRC	US$1,300,000	**–**	–	**100**	100	Provision of CG and animation training
環球數碼媒體科技研究(深圳)有限公司 *(note b)*	PRC	US$36,633,896	**–**	–	**100**	100	Provision of CG and animation creation and production services, development of multimedia software and hardware, provision of related technical consultancy services and property holding
深圳市環球數碼影視文化有限公司 *(note c)*	PRC	RMB3,000,000	**–**	–	**100**	100	Animation Investment
深圳市南山區環球數碼培訓學校 *(note d)*	PRC	RMB200,000	**–**	–	**100**	100	Provision of CG and animation training

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest of the Group				Principal activities
			directly		indirectly		
			2017	2016	**2017**	2016	
			%	%	**%**	%	
廣州高尚商業經營管理有限公司 *(note b)*	PRC	RMB1,000,000	**–**	–	**68**	68	Provision of building management service
北京風雲環球數碼傳媒技術有限公司 *(note c)*	PRC	RMB15,000,000	**–**	–	**100**	100	Provision of graphic animation creation
深圳市環球數碼創意科技有限公司 *(note c)*	PRC	RMB2,000,000	**–**	–	**70**	70	Provision of graphic animation creation
深圳市環球物業管理有限公司 *(note c)*	PRC	RMB1,000,000	**–**	–	**100**	100	Provision of building management service
佛山環球數碼媒體科技有限公司 *(note c)*	PRC	RMB10,000,000	**–**	–	**100**	100	Provision of CG and animation creation and production services

Notes:

(a) Sino-foreign equity joint venture

(b) Wholly foreign-owned enterprise

(c) Limited liability company

(d) Private non-enterprise institution

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

Name of subsidiary	Place of establishment and operation	Principal activities	Proportion of ownership interest and voting right held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
			2017	2016	**2017**	2016	**2017**	2016
			%	%	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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	**5,352**	(31,881)	**25,778**	18,737
Individually immaterial subsidiaries with non-controlling interests							**(696)**	(578)
							25,082	18,159

Guangdong Cultural Park is a private company established in the PRC, which was acquired in 2010 in order to provide the Group an opportunity to participate in the culture, entertainment and related commercial property investment business in the PRC.

The Group has indirect ownership interest of 68% in Guangdong Cultural Park, which is held by GDC Cultural Parks Limited (formerly known as Shougang GDC Media Holding Limited), a wholly owned subsidiary of the Company. The remaining 32% non-controlling interest in Guangdong Cultural Park is held by an individual. The Directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Guangdong Cultural Park on the basis of the Group's absolute size of shareholding and the relative size of the shareholdings owned by the other shareholder.

Summarised financial information in respect of Guangdong Cultural Park is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

	2017	2016
	HK$'000	*HK$'000*
Current assets	**14,206**	17,522
Non-current assets	**487,956**	429,217
Current liabilities	**(380,981)**	(349,966)
Non-current liabilities	**(40,625)**	(38,220)
Equity attributable to owners of the Company	**54,778**	39,816
Non-controlling interests	**25,778**	18,737
Revenue	**46,714**	44,060
Impairment loss on investment properties	**–**	(84,467)
Decrease in fair value of investment properties	**(579)**	–
Write-off of construction deposit	**–**	(23,310)
Expenses	**(29,410)**	(35,912)
Profit (loss) for the year	**16,725**	(99,629)
Profit (loss) attributable to owners of the Company	**11,373**	(67,748)
Profit (loss) attributable to the non-controlling interests	**5,352**	(31,881)
Profit (loss) for the year	**16,725**	(99,629)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

	2017	2016
	HK$'000	*HK$'000*
Other comprehensive income (expenses) attributable to owners of the Company	**3,589**	(4,513)
Other comprehensive income (expenses) attributable to the non-controlling interests	**1,689**	(2,126)
Other comprehensive income (expenses) for the year	**5,278**	(6,639)
Total comprehensive income (expenses) attributable to owners of the Company	**14,962**	(72,261)
Total comprehensive income (expenses) attributable to the non-controlling interests	**7,041**	(34,007)
Total comprehensive income (expenses) for the year	**22,003**	(106,268)
Net cash inflow from operating activities	**6,722**	2,528
Net cash inflow (outflow) from investing activities	**10**	(11,185)
Net cash (outflow) inflow from financing activities	**(9,274)**	7,453
Net cash outflow	**(2,542)**	(1,204)

43. LITIGATIONS

As at 31 December 2017, the Group has the following litigations:

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 2017, the restricted bank deposit amounted to approximately HK$46,253,000 (2016: HK$17,797,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. LITIGATIONS *(Continued)*

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 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 and the PRC legal advisors of Guangdong Cultural Park sought a further extension of the settlement negotiations period for one month in respect of both Alleged Breach and the counterclaim.

On 17 October 2016, Guangdong Cultural Park received the First Civil Judgment from the Guangzhou Intermediate People's Court dated 11 October 2016. According to the First Civil Judgment, the Guangzhou Intermediate People's Court declared that the Framework Agreement was terminated as of 22 March 2016. The First 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 First Civil Judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs 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.

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment.

The Management is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these Further Actions, the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

Depending on the ultimate outcome of the Further Actions, 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 Further Actions cannot be assessed at this stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017	2016
	HK$'000	*HK$'000*
Non-current asset		
Investment in a subsidiary	**–**	–
Current assets		
Prepayment, deposits and other receivables	**311**	289
Amount due from a subsidiary	**944**	–
Bank balances and cash	**386**	926
	1,641	1,215
Current liability		
Other payables and accruals	**1,039**	910
Net current assets	**602**	305
Net assets	**602**	305
Capital and deficit		
Share capital	**15,183**	15,183
Deficit	**(14,581)**	(14,878)
Total equity	**602**	305

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 2016	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)
Profit and total comprehensive income for the year	–	–	297	297
At 31 December 2017	75,856	215,102	(305,539)	(14,581)

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	160,720	204,404	181,664	146,759	**133,915**
Profit (loss) from operations	42,091	44,987	27,730	(89,692)	**(22,894)**
Finance costs	(8,993)	(6,761)	(2,559)	–	**–**
Share of loss of an associate	–	–	–	–	**(23)**
Profit (loss) before tax	33,098	38,226	25,171	(89,692)	**(22,917)**
Income tax expense	(9,813)	(5,607)	(4,986)	(5,602)	**(1,098)**
Profit (loss) for the year	23,285	32,619	20,185	(95,294)	**(24,015)**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	1,305,721	1,279,906	1,147,370	996,785	**1,030,888**
Total liabilities	(303,480)	(240,166)	(150,125)	(151,559)	**(155,133)**
Net assets	1,002,241	1,039,740	997,245	845,226	**875,755**

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%