

2018
FIRST QUARTERLY REPORT

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)

** For identification purpose only*



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

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent Non-executive Directors

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

Executive Committee

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Compliance Officer

Mr. Chen Zheng

Company Secretary

Ms. Kam Man Yi, Margaret

CORPORATE INFORMATION *(Continued)*

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

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the "Board") hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2018 with comparative figures for the corresponding period in the year 2017.

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

For the three months ended 31 March 2018

		Three months ended 31 March	
		2018	2017
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	30,931	26,833
Cost of sales		(22,741)	(14,737)
Gross profit		8,190	12,096
Other income	4	5,732	2,301
Distribution costs and selling expenses		(714)	(812)
Administrative expenses		(13,735)	(13,806)
Other gains and losses	5	50	(458)
Loss before tax		(477)	(679)
Income tax expense	6	(320)	(299)
Loss for the period		(797)	(978)
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		34,417	7,878
Total comprehensive income for the period		33,620	6,900
(Loss) profit for the period attributable to:			
Owners of the Company		(2,256)	(2,575)
Non-controlling interests		1,459	1,597
		(797)	(978)
Total comprehensive income for the period attributable to:			
Owners of the Company		31,080	5,111
Non-controlling interests		2,540	1,789
		33,620	6,900
		<i>HK cents</i>	<i>HK cents</i>
Loss per share:	7		
Basic		(0.15)	(0.17)

NOTES:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2018 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current period, the Group has applied, for the first time, certain new amendments to Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2018. The application of these amendments to HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

3. REVENUE

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

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
Revenue from contracts for computer graphic ("CG") creation and production	3,083	1,801
Rental and building management service fee income	26,939	24,148
CG training fee	909	884
	30,931	26,833

4. OTHER INCOME

	Three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Interest income	1,501	903
Government grants	4,126	1,398
Others	105	–
	<u>5,732</u>	<u>2,301</u>

5. OTHER GAINS AND LOSSES

	Three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Allowance for doubtful debt	(671)	(903)
Increase in fair value of structured deposits	721	445
	<u>50</u>	<u>(458)</u>

6. INCOME TAX EXPENSE

	Three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
PRC Enterprise Income Tax ("EIT"):		
Current tax	386	355
Deferred tax	(66)	(56)
	<u>320</u>	<u>299</u>

6. INCOME TAX EXPENSE (Continued)

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the Group's subsidiaries in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) is 25% from 1 January 2008 onwards, except for those subsidiaries described below.

According to the Circular of 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 was 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 three months ended 31 March 2018, the relevant tax rates for the Group's subsidiaries in the PRC was ranged from 15% to 25% (three months ended 31 March 2017: 15% to 25%).

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

7. LOSS PER SHARE

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

	Three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Loss		
Loss for the period attributable to owners of the Company for the purposes of basic loss per share	<u>(2,256)</u>	<u>(2,575)</u>
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic loss per share	<u>1,518,256</u>	<u>1,518,256</u>

No diluted loss per share for the three months ended 31 March 2018 and 2017 were presented as there were no potential ordinary shares in issue for the three months ended 31 March 2018 and 2017.

8. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Investment revaluation reserve	Exchange reserve	Special reserve	Retained earnings	Sub-total		
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1 January 2018	15,183	75,856	445	245,881	4,462	-	17,653	(1,209)	492,402	850,673	25,082	875,755
(Loss) profit for the period	-	-	-	-	-	-	-	-	(2,256)	(2,256)	1,459	(797)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	33,336	-	-	33,336	1,081	34,417
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	33,336	-	(2,256)	31,080	2,540	33,620
At 31 March 2018	15,183	75,856	445	245,881	4,462	-	50,989	(1,209)	490,146	881,753	27,622	909,375
At 1 January 2017	15,183	75,856	445	245,881	4,316	4,057	(39,305)	(1,209)	521,843	827,067	18,159	845,226
(Loss) profit for the period	-	-	-	-	-	-	-	-	(2,575)	(2,575)	1,597	(978)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	7,686	-	-	7,686	192	7,878
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	7,686	-	(2,575)	5,111	1,789	6,900
At 31 March 2017	15,183	75,856	445	245,881	4,316	4,057	(31,619)	(1,209)	519,268	832,178	19,948	852,126

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2018 (three months ended 31 March 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2018, the Group recorded a loss attributable to owners of the Company of HK\$2,256,000, and for the three months ended 31 March 2017, the Group recorded a loss attributable to owners of the Company of HK\$2,575,000.

Revenue for the three months ended 31 March 2018 amounted to HK\$30,931,000, representing an increase of 15% when compared with that of HK\$26,833,000 in the corresponding period in 2017. The increase was mainly attributable to an increase of approximately HK\$1,282,000 in revenue from contracts for CG creation and production as well as an increase of approximately HK\$2,791,000 in revenue from rental and building management service fee income during the period under review.

Cost of sales for the three months ended 31 March 2018 amounted to HK\$22,741,000, representing an increase of HK\$8,004,000 when compared with that of HK\$14,737,000 in the corresponding period in 2017. The increase was mainly attributable to the recognition of the amortized programme costs of an original film and provision for impairment for the programme cost of television series for the period under review.

Other income for the three months ended 31 March 2018 amounted to HK\$5,732,000, representing an increase of HK\$3,431,000 when compared with that of HK\$2,301,000 for the three months ended 31 March 2017. The increase was mainly attributable to an increase of HK\$2,728,000 and HK\$598,000 in government grants and interest income, respectively.

Distribution costs and selling expenses for the three months ended 31 March 2018 amounted to HK\$714,000, representing a decrease of HK\$98,000 when compared with that of HK\$812,000 in the corresponding period in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Administrative expenses for the three months ended 31 March 2018 amounted to HK\$13,735,000 (three months ended 31 March 2017: HK\$13,806,000) which was mainly attributable to staff costs, office running costs as well as depreciation and amortisation. Administrative expenses also include the rental cost of Phase II of 珠影文化產業園 (“Pearl River Film Cultural Park”). As at the date of this report, 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, and 珠江電影製片有限公司 (“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, starting from the first quarter of 2016, the Group has recognised all rental expenses in accordance with the framework agreement of the reconstruction of the Pearl River Film Park dated 28 March 2007 (as supplemented on 3 April 2008) (the “Framework Agreement and its Supplemental Agreements”) 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.

Other gains and losses for the three months ended 31 March 2018 was net gains of HK\$50,000, representing an increase of HK\$508,000 when compared with net losses of HK\$458,000 in the corresponding period of last year. This is attributable to a decrease in allowance for doubtful debt and increase in fair value change on structured deposits.

BUSINESS REVIEW AND OUTLOOK

CG creation and production

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

In the first quarter of 2018, the CG creation and production division undertook part of the intermediate production of two animation movies and one television series, as well as the post-production of one original animation movie. In terms of original film and television drama projects, the sixth film of the “Happy Little Submarine” series is scheduled to be screened in China in the second quarter of the year, and the second episode of the television animation, “Smart Shunliu – Eagle Boy”, is also planned for broadcasting on domestic television channels and video websites. The division is currently preparing to produce a new original sci-fi animation series and will co-invest and co-produce with a PRC company which is experienced in intellectual toys. We look forward to capitalizing on the synergies resulting from the strategic alliance formed between the parties.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production *(Continued)*

In the first quarter of 2018, the television animation “Smart Shunliu – Eagle Boy”, which received the “Best Animation Works”(「最佳動漫作品」) award in the 3rd Animation Award of the Chinese Culture and Arts Government Award (中國文化藝術政府獎第三屆動漫獎), was also recommended by the State Administration of Radio, Film and Television of China as the “Excellent Domestic Television Animation for the Fourth Quarter of 2017”(「二零一七年第四季度優秀國產電視動畫片」) and selected as one of the nominated works for the 25th Television Arts “Starlight Award”(第25屆電視文藝「星光獎」) (in television animation group) of the China Radio, Film and Television Awards – Radio and TV Programme Awards (中國廣播影視大獎•廣播電視節目獎).

Going forward, the division will strive to secure international and domestic projects for its production services while working proactively in the development of original film production. By effectively drawing upon its production capacity and human resources, the division is expected to maximize the overall efficiency and achieve sustainable development.

CG Training

Revenue from the CG training segment for the first quarter of 2018 remained almost the same as that of the corresponding period of last year. However, as a result of the tightened student assistance policies and the industry environment, the progress of enrolment for some professional courses of the division was affected, leading to increased costs as the division stepped up its promotional efforts to address this issue. In addition, the division also embarked on the establishment of an internet vocational education platform, which is positioned in the art field and is expected to diversify the sources of income. Since last year, the division has participated in the teaching of some higher vocational colleges through e-courses. In the first quarter, the division signed cooperation agreements with several other higher vocational colleges, aiming at cultivating more talents in the teaching form of e-course. Looking into the second quarter of 2018, the division is expected to focus on the expansion of online education platforms and the growth in course scale, and integrate the industry talent pool of the training business established over the years to expand its lecturer team, in an effort to promote the training and development of talents in the art field.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park

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

According to the Higher Court Civil Judgment, the Guangdong Higher People’s Court rejected Guangdong Cultural Park’s appeal and the decision (the “First Civil Judgment”) of the Intermediate People’s Court of Guangzhou City of Guangdong Province of the PRC (中國廣東省廣州市中級人民法院) (the “Guangzhou Intermediate People’s Court”) was upheld, which included, among others, the judgment that the Framework Agreement and its Supplemental Agreements should be terminated as of 22 March 2016; Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 (equivalent to approximately HK\$3,172,000) during the period from 1 October 2015 to 21 March 2016 and that Pearl River Film Production is entitled to keep the RMB20,000,000 (equivalent to approximately HK\$23,310,000) construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production were dismissed and the counterclaim made by Guangdong Cultural Park was dismissed. During the year ended 31 December 2016, the Group recognised an impairment loss on properties interest under construction of approximately HK\$84,467,000, write-off of construction deposit of approximately HK\$23,310,000 and late payment surcharges for rental of approximately HK\$3,172,000 in light of the First Civil Judgment.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park (Continued)

Following the receipt of the Higher Court Civil Judgment, the management met with the representatives of Pearl River Film Production for a preliminary discussion on 27 March 2018. During the meeting, the representatives of Pearl River Film Production indicated that they expected Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park as soon as possible, being the undeveloped land; and intended to have further discussion on the future arrangement of Phase I of the Pearl River Film Cultural Park. After the meeting, the management and all shareholders of Guangdong Cultural Park met with the PRC legal advisor on 3 April 2018 to seek legal advice. The PRC legal advisor recommended to negotiate the overall arrangement of the Pearl River Film Cultural Park (both Phase I and Phase II) as a package, which all shareholders agreed and accepted. The management met with the representatives of Pearl River Film Production for the second time on 17 April 2018. At the meeting, the management presented its proposal to the representatives of Pearl River Film Production, in the hope to reach a consensus as soon as possible in respect of the continuous operation of Phase I of the Pearl River Film Cultural Park. As of the date of this report, the negotiation is still in progress.

At present, Guangdong Cultural Park is still operating the completed properties of the Pearl River Film Cultural Park. Assuming the contractual rights to receive rental income from the lessees and obligations to pay the rental to Pearl River Film Production will remain unchanged, and the terms and conditions governing the Framework Agreement and its Supplemental Agreements for Phase I of the Pearl River Film Cultural Park will continue to be implemented, the revenue recognised for the first quarter of 2018 was approximately HK\$12,475,000. The management will remain in close discussion with the representatives of Pearl River Film Production to finalize the operation rights of Phase I of Pearl River Film Cultural Park as soon as possible. If the outcome of the negotiation is not favourable to the division, the fair value of Phase I of the Pearl River Film Cultural Park accounted for in the consolidated financial statements of the Group and the future profitability of the division will be significantly and adversely affected.

LITIGATION

On 11 April 2016, Guangdong Cultural Park received a notice of response to action (應訴通知書) (the “Notice of Response to Action”) from the Guangzhou Intermediate People’s Court dated 6 April 2016. It was set out in the Notice of Response to Action that Pearl River Film Production as the plaintiff (the “Plaintiff”) has initiated legal proceedings against Guangdong Cultural Park in respect of an alleged breach of the Framework Agreement and its Supplemental Agreements (“Alleged Breach”). The Plaintiff has demanded to terminate the Framework Agreement and its Supplemental Agreements 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 March 2018, the restricted bank deposit amounted to approximately HK\$53,929,000 (31 December 2017: approximately HK\$46,253,000).

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

In light of the above legal proceedings, Guangdong Cultural Park denied the Plaintiff’s 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 its Supplemental Agreements 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 and its Supplemental Agreements were 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.

LITIGATION *(Continued)*

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

On 16 March 2018, Guangdong Cultural Park received the Higher Court Civil Judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to the Higher Court Civil Judgment, this judgment of Guangdong Higher People's Court is the final judgment. The Intermediate People's Court of Guangzhou has enforced the First Civil Judgment and deducted the late payment surcharges from the Bank Account by end of April 2018, after which the Bank Account was released.

The management has sought legal advice on the Higher Court 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 action that can be taken by the management. Concurrently, the management has initiated negotiation with Pearl River Film Production and met with the representatives of Pearl River Film Production for preliminary discussions on 27 March 2018 and 17 April 2018. For further details on the preliminary discussions with Pearl River Film Production, please refer to the section headed "MANAGEMENT DISCUSSION AND ANALYSIS – BUSINESS REVIEW AND OUTLOOK – Cultural Park" of this report.

Depending on the ultimate outcome of the negotiation, there may be significant impacts on multiple elements of the Group's consolidated financial statements. Amongst other impacts, the Group might be required to make impairment or derecognition of the investment properties, make derecognition of rental income already reflected as revenue and make provisions for compensation in respect of damages and other costs. As at the date of this report, the negotiation is still in preliminary stage and has not been completed, the management is currently not in the position to assess the outcome of negotiation and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2018.

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

As at 31 March 2018, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Approximate percentage of total issued share capital of the Company
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Chen Zheng	Beneficial owner	185,988,200	-	185,988,200	12.25%
Mr. Leung Shun Sang, Tony	Beneficial owner	30,008,200	-	30,008,200	1.98%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	-	10,800,820	0.71%

Save as disclosed above, as at 31 March 2018, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the three months ended 31 March 2018 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2018, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Approximate percentage of total issued share capital of the Company
Shougang Group Co., Ltd. ("Shougang Group")	Interests of controlled corporations	619,168,023 (Note)	40.78%
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	619,168,023 (Note)	40.78%
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 March 2018, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

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

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2018, none of the Directors had an interest in a business (other than those businesses where the Director was appointed as a director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules throughout the three months ended 31 March 2018.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2018.

AUDIT COMMITTEE

The Group’s first quarterly results for the three months ended 31 March 2018 were unaudited. The unaudited first quarterly results of the Group for the three months ended 31 March 2018 have been reviewed by the Company’s audit committee together with the management.

APPRECIATION

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

By Order of the Board

Xu Liang

Chairman

Hong Kong, 9 May 2018