

2018
THIRD 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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CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. Cheng Xiaoyu (*Chairman*)
(*appointed as Chairman on 21 July 2018*)
Mr. Chen Zheng (*Chief Executive Officer*)
Mr. Jin Guo Ping (*Vice President*)
Mr. Xu Liang
(*ceased to be Chairman on 21 July 2018*)

Non-executive Director

Mr. Leung Shun Sang, Tony (*retired on 18 May 2018*)

Independent Non-executive Directors

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

Executive Committee

Ms. Cheng Xiaoyu (*Chairman*)
(*appointed as Chairman on 21 July 2018*)
Mr. Chen Zheng
Mr. Jin Guo Ping
Mr. Xu Liang
(*ceased to be Chairman on 21 July 2018*)

Audit Committee

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

Nomination Committee

Ms. Cheng Xiaoyu (*Chairman*)
(*appointed on 21 July 2018*)
Mr. Leung Shun Sang, Tony (*Vice Chairman*)
(*retired on 18 May 2018*)
Mr. Xu Liang
(*ceased to be Chairman on 21 July 2018*)
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Lam Yiu Kin

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)
Ms. Cheng Xiaoyu (*Vice Chairman*)
(*appointed on 21 July 2018*)
Mr. Xu Liang
(*ceased to be Vice Chairman on 21 July 2018*)
Mr. Leung Shun Sang, Tony (*retired on 18 May 2018*)
Mr. Kwong Che Keung, Gordon
Mr. Lam Yiu Kin

CORPORATE INFORMATION *(Continued)*

Compliance Officer	Mr. Chen Zheng
Company Secretary	Ms. Kam Man Yi, Margaret
Authorised Representatives	Mr. Chen Zheng Ms. Kam Man Yi, Margaret
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Unit 2112, 21/F, K. Wah Centre 191 Java Road North Point Hong Kong
Stock Code	8271
Website	www.gdc-world.com

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") is pleased to report the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2018 with comparative figures for the corresponding periods in the year 2017.

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

For the nine months ended 30 September 2018

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue					
Goods and services		13,604	20,465	60,215	41,224
Rental		19,185	20,145	63,503	60,062
Total Revenue	3	32,789	40,610	123,718	101,286
Cost of sales		(16,546)	(39,072)	(66,292)	(68,050)
Gross profit		16,243	1,538	57,426	33,236
Other income	4	13,850	1,944	23,691	6,431
Distribution costs and selling expenses		(1,045)	(17,196)	(3,883)	(20,083)
Administrative expenses		(14,160)	(13,827)	(41,655)	(41,257)
Other gains and losses	5	(584)	1,039	(800)	331
Change in fair value of investment properties		59	-	(2,521)	-
Share of result of an associate		-	(24)	-	(24)
Profit (loss) before tax		14,363	(26,526)	32,258	(21,366)
Income tax expense	6	(187)	714	(7,059)	(524)
Profit (loss) for the period		14,176	(25,812)	25,199	(21,890)
Other comprehensive (expenses) income:					
Item that will not be reclassified to profit or loss:					
Exchange differences on translation to presentation currency		(27,692)	14,634	(39,138)	39,919
Items that may be reclassified subsequently to profit or loss:					
Decrease in fair value of available-for-sale investment		-	-	-	(4,057)
Other comprehensive (expenses) income for the period		(27,692)	14,634	(39,138)	35,862
Total comprehensive (expenses) income for the period		(13,516)	(11,178)	(13,939)	13,972

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

(Continued)

For the nine months ended 30 September 2018

	NOTE	Three months ended		Nine months ended	
		30 September 2018	2017	30 September 2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit (loss) for the period attributable to:					
Owners of the Company		12,646	(27,183)	21,329	(26,271)
Non-controlling interests		1,530	1,371	3,870	4,381
		<u>14,176</u>	<u>(25,812)</u>	<u>25,199</u>	<u>(21,890)</u>
Total comprehensive (expenses) income for the period attributable to:					
Owners of the Company		(13,965)	(12,972)	(16,307)	8,506
Non-controlling interests		449	1,794	2,368	5,466
		<u>(13,516)</u>	<u>(11,178)</u>	<u>(13,939)</u>	<u>13,972</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share:	7				
Basic		<u>0.83</u>	<u>(1.79)</u>	<u>1.4</u>	<u>(1.73)</u>

NOTES:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2018 are the same as 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current period.

3. REVENUE

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

	Three months ended		Nine months ended	
	30 September 2018	2017	30 September 2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from computer graphic ("CG") production	6,433	2,195	15,620	5,427
Revenue from television series and movies	1,113	10,619	26,021	16,089
Rental and building management service fee income	24,213	25,735	78,582	74,910
CG training fee	1,030	2,061	3,495	4,860
	32,789	40,610	123,718	101,286

4. OTHER INCOME

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	2,457	1,553	6,053	4,329
Government grants	11,320	343	17,192	1,985
Others	73	48	446	117
	<u>13,850</u>	<u>1,944</u>	<u>23,691</u>	<u>6,431</u>

5. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Changes in fair value of structured deposits	(614)	151	496	448
Allowance for doubtful debt	30	888	(1,296)	(117)
	<u>(584)</u>	<u>1,039</u>	<u>(800)</u>	<u>331</u>

6. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC Enterprise Income Tax ("EIT"):				
Current tax	102	(718)	806	685
Under provision in prior years	—	—	—	8
	102	(718)	806	693
PRC withholding tax on distributed profit from a PRC subsidiary (<i>Note</i>)	—	—	6,825	—
Deferred tax	85	4	(572)	(169)
	187	(714)	7,059	524

Note: During the nine months ended 30 September 2018, a subsidiary of the Company in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) has declared an one-off and non-recurring special dividend to the Company and withholding tax amounted to approximately HK\$6,825,000 has been paid to the PRC tax bureau. According to the EIT Law and Implementation Regulation of the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise.

In the opinion of the directors of the Company and the directors of the PRC subsidiaries, the PRC subsidiaries has no intention and is not probable to declare dividend in the foreseeable future and deferred taxation has not been provided for in this unaudited condensed consolidated statement of profit or loss and other comprehensive income in respect of temporary difference attributable to the remaining retained profits earned by the subsidiaries in the PRC 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.

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

6. INCOME TAX EXPENSE (Continued)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Rules of the EIT Law, the EIT rate of the Group's subsidiaries in the PRC is 25% from 1 January 2008 onwards, except for those subsidiaries described below.

According to the Circular of the State Administration of Taxation on the issues concerning implementation of the preferential income tax for hi-tech enterprise (Guoshui Han [2009] No. 203), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 2017 to 2020 as it is qualified as hi-tech enterprise. For the nine months ended 30 September 2017, 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. For the nine months ended 30 September 2018, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (nine months ended 30 September 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 from other jurisdictions.

7. EARNINGS (LOSS) PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings (loss)				
Profit (loss) for the period attributable to owners of the Company for the purposes of basic earnings (loss) per share	<u>12,646</u>	<u>(27,183)</u>	<u>21,329</u>	<u>(26,271)</u>
	'000	'000	'000	'000
Number of shares				
Number of ordinary shares in issue for purposes of basic earnings (loss) per share	<u>1,518,256</u>	<u>1,518,256</u>	<u>1,518,256</u>	<u>1,518,256</u>

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

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>		
At 1 January 2018 (audited)	15,183	75,856	445	245,881	4,462	-	17,653	(1,209)	492,402	850,673	25,082	875,755
Profit for the period	-	-	-	-	-	-	-	-	21,329	21,329	3,870	25,199
Exchange differences on translation to presentation currency	-	-	-	-	-	-	(37,636)	-	-	(37,636)	(1,502)	(39,138)
Other comprehensive expenses for the period	-	-	-	-	-	-	(37,636)	-	-	(37,636)	(1,502)	(39,138)
Total comprehensive (expenses) income for the period	-	-	-	-	-	-	(37,636)	-	21,329	(16,307)	2,368	(13,939)
2018 special dividend	-	-	-	-	-	-	-	-	(121,460)	(121,460)	-	(121,460)
At 30 September 2018 (unaudited)	15,183	75,856	445	245,881	4,462	-	(19,983)	(1,209)	392,271	712,906	27,450	740,356
At 1 January 2017 (audited)	15,183	75,856	445	245,881	4,316	4,057	(39,305)	(1,209)	521,843	827,067	18,159	845,226
(Loss) profit for the period	-	-	-	-	-	-	-	-	(26,271)	(26,271)	4,381	(21,890)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	38,834	-	-	38,834	1,085	39,919
Decrease in fair value of available-for-sale investment	-	-	-	-	-	(4,057)	-	-	-	(4,057)	-	(4,057)
Other comprehensive (expenses) income for the period	-	-	-	-	-	(4,057)	38,834	-	-	34,777	1,085	35,862
Total comprehensive (expenses) income for the period	-	-	-	-	-	(4,057)	38,834	-	(26,271)	8,506	5,466	13,972
At 30 September 2017 (unaudited)	15,183	75,856	445	245,881	4,316	-	(471)	(1,209)	495,572	835,573	23,625	859,198

SPECIAL AND INTERIM DIVIDENDS

On 20 July 2018, the Board resolved the declaration and payment of a special dividend of HK\$0.08 per share of the Company (the “Special Dividend”), amounting to approximately HK\$121,460,000 in total. The Special Dividend has been paid on 20 August 2018 to the shareholders of the Company whose names appear on the register of members of the Company on 7 August 2018.

Apart from the above, the Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September 2018, the Group recorded profits attributable to owners of the Company of HK\$21,329,000, when compared with losses attributable to owners of the Company of HK\$26,271,000 for the corresponding period of last year.

Revenue for the nine months ended 30 September 2018 amounted to HK\$123,718,000, representing an increase of HK\$22,432,000 when compared with that of HK\$101,286,000 for the corresponding period of 2017, of which revenue generated by CG production and original projects for the Group increased by HK\$10,193,000 and HK\$9,932,000 respectively as compared with the corresponding period of last year.

Cost of sales for the nine months ended 30 September 2018 amounted to HK\$66,292,000, representing a decrease of HK\$1,758,000 when compared with that of HK\$68,050,000 for the corresponding period of 2017, which was mainly attributable to the decrease in programme costs of original animated film as compared with the corresponding period of last year and was partly offset by the amortized programme costs of two original projects recognized for the period under review.

Other income for the nine months ended 30 September 2018 amounted to HK\$23,691,000, representing an increase of HK\$17,260,000 when compared with that of HK\$6,431,000 for the nine months ended 30 September 2017, which was mainly attributable to the increase in government grants and interest income of HK\$15,207,000 and HK\$1,724,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Distribution costs and selling expenses for the nine months ended 30 September 2018 amounted to HK\$3,883,000, representing a decrease of HK\$16,200,000 when compared with that of HK\$20,083,000 for the corresponding period of 2017, which was mainly attributable to the significant decrease in the marketing expenses for original projects during the period under review.

Administrative expenses for the nine months ended 30 September 2018 amounted to HK\$41,655,000 (nine months ended 30 September 2017: HK\$41,257,000), which was mainly staff costs, office running costs as well as depreciation and amortization. Administrative expenses also included the rental cost of Phase II of 珠影文化產業園 (the “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”) were still undergoing negotiation in relation to the operating terms of the completed properties in the Pearl River Film Cultural Park. Therefore, the Group recognized all rental expenses under the framework agreement on the reconstruction of the Pearl River Film Cultural Park as entered on 28 March 2007 (as supplemented on 3 April 2008) (the “Framework Agreement”) in profit or loss for the period in which they were 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.

Fair value of investment properties for the nine months ended 30 September 2018 decreased HK\$2,521,000 (nine months ended 30 September 2017: HK\$Nil) and the change in fair value was attributable to the completed Pearl River Film Cultural Park Phase I.

Other gains and losses for the nine months ended 30 September 2018 was HK\$800,000 of net losses, representing a decrease of HK\$1,131,000 as compared with HK\$331,000 of net gains for the corresponding period of last year, which was mainly attributable to the increase of allowance for doubtful debt of HK\$1,179,000 as compared to last year.

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

Revenue of the CG creation and production division of the Group was mainly generated from production services of animated films and television series, box office receipts and copyrights of original animated films, copyrights of animated television series, businesses derived from animation brands, productions of display videos for exhibitions, and property rental income.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

During January to September 2018, the animated film production projects undertaken by our CG creation and production division mainly came from China, including part of the intermediate production of several animated films and television series as well as one web animation. The pre-production work of an animated television series has also started. For original film and television series projects, “Happy Little Submarine: 20000 Leagues under the Sea”, the sixth film of the “Happy Little Submarine” series, was screened in China during the “1 June” International Children’s Day 2018 time slot with box office receipt of approximately RMB70,000,000. The creation for a new movie of the same series has also been activated by the division. Meanwhile, the second episode of the television animation, “Smart Shunliu – Eagle Boy”, which was shown on video websites and domestic television channels, recorded satisfactory hit rate and television ratings. In addition, the division has co-invested and co-produced with a sizable PRC company that is experienced in intellectual toys for a new original sci-fi animation series, “星際車神”, which is now in production. We look forward to capitalizing on the synergies generated from the strategic alliance between the two parties.

From January to September in 2018, the television animation “Smart Shunliu – Eagle Boys” which received the “Best Animated Works”(「最佳動漫作品」) award in the 3rd Animation Award of the Chinese Culture and Arts Government Awards (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 “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 was 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 the television animation category of the China Radio, Film and Television Awards – Radio and TV Programme Award (中國廣播影視大獎•廣播電視節目獎) as well as “2018 Top 10 Animation IP with the most commercial value”(「二零一八年度最具商業價值十大動漫IP」) in the 3rd “Jade Monkey Award”(玉猴獎) in the China IP Industry Conference. The original animated movie series “Happy Little Submarine” was shortlisted in the “Outstanding Cartoon Character Design Category”(「卡通形象設計類優秀作品」) in the 2018 Marketing Conference of Cartoon Characters in China (二零一八中國卡通形象營銷大會), and “Happy Little Submarine: 20000 Leagues under the Sea” received “Jury Special Award”(「評委會特別獎」) in “Xinguang Award” China Xi’an 7th International Original Animation Competition (「新光獎」中國西安第七屆國際原創動漫大賽). In addition, animation movie “Toy Guardians” was nominated for “Best Arts in Animation Movies”(「動畫電影類最佳美術獎」) of the 1st AniSpark Domestic Original Animation Gala of Sanwen Entertainment (三文娛第一屆AniSpark國產原創動畫盛典) and “Best Animated Movie”(「最佳動畫長片獎」) of the 15th China Animation & Comic Competition Golden Dragon Award (第15屆中國動漫金龍獎) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

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

CG Training

Revenue from the CG training division for January to September 2018 was lower than expected and the corresponding period last year. In the past few years, the Company has actively adjusted its business, however, the number of students enrolled continued to decline. Given that the prospects for the animation training industry was not optimistic, the management decided to shrink the business starting from the third quarter by terminating marketing and promotional activities, reducing marketing personnel, retaining the necessary teachers for completing the services of the original classes and maintaining the operation of online education platform.

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 “MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATION” of this report.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park (Continued)

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural Park (Continued)

negotiate with Pearl River Film Production for the overall arrangement of Phase I and Phase II of the Pearl River Film Cultural Park to express the sincerity of the Company for continuing operation of Phase I of the Pearl River Film Cultural Park. On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from the legal representatives of Pearl River Film Production demanded the delivery of the relevant properties of Pearl River Film Cultural Park and claimed for compensation of related occupation fees and economic loss totalling to approximately RMB143,076,000 (equivalent to approximately HK\$169,521,000). Guangdong Cultural Park immediately sought the advice from the PRC legal advisor and requested to meet and negotiate with the representatives of Pearl River Film Production. Since then, Guangdong Cultural Park has conducted a series of negotiations with Pearl River Film Production. As at the date of this report, the above negotiation has been ongoing and Pearl River Film Production has not yet reached a consensus with Guangdong Cultural Park regarding the continuing operation of Phase I of the Pearl River Film Cultural Park. The Group has provided for an aggregate amount of approximately HK\$36,810,000 for the unpaid rent in respect of the rental rights of the properties of Pearl River Film Cultural Park (from 22 March 2016, i.e. the termination date of the Framework Agreement, to the end of this reporting period). As at 30 September 2018, the completed properties of Pearl River Film Cultural Park Phase I amounted to HK\$415,165,000. Should there be any significant updates, the Company will make timely disclosure on both the Stock Exchange's website and the Company's website.

Guangdong Cultural Park is still operating Phase I of the Pearl River Film Cultural Park (on the assumption that 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 for Phase I of the Pearl River Film Cultural Park will continue to be implemented). The revenue recognized for the nine months ended 30 September 2018 was approximately HK\$34,590,000. The management will remain in close discussion with the representatives of Pearl River Film Production in hopes to finalize the operating terms of Phase I of the 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 (the "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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATION *(Continued)*

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 (the "Appeal") which was accepted by the 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 the Guangdong Higher People's Court.

On 16 March 2018, Guangdong Cultural Park received the Higher Court Civil Judgment of the 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 the Guangdong Higher People's Court is the final judgment.

In April 2018, Guangdong Cultural Park has settled the outstanding late payment surcharges for the overdue rental during the period from 1 October 2015 to 21 March 2016 and the Guangzhou Intermediate People's Court has implemented the First Civil Judgment and released the frozen Bank Account.

In June 2018, after several rounds of discussion with Pearl River Film Production, Guangdong Cultural Park returned a portion of land in the Pearl River Film Cultural Park, which had been used as parking space, to Pearl River Film Production.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATION *(Continued)*

On 7 August 2018, Guangdong Cultural Park received a legal letter dated 6 August 2018 from Pearl River Film Production's legal representative, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for compensation of related occupation fee and economic loss amounted to approximately RMB143,076,000 (equivalent to approximately HK\$169,521,000) (the "Demand Letter").

The management has sought legal advice on the Demand Letter and requested to meet and negotiate with Pearl River Film Production. Please refer to the section headed "MANAGEMENT DISCUSSION AND ANALYSIS – BUSINESS REVIEW AND OUTLOOK – Cultural Park" of this report for further details.

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 derecognise the investment properties, derecognise 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 has been ongoing, 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 nine months ended 30 September 2018.

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

As at 30 September 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. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	-	10,800,820	0.71%

Save as disclosed above, as at 30 September 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 nine months ended 30 September 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 30 September 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 30 September 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, the share option scheme of the Company (the “Share Option Scheme”) which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted since its adoption. The Share Option Scheme shall be valid and effective for a period of 10 years.

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2018.

AUDIT COMMITTEE

The Group’s third quarterly results for the nine months ended 30 September 2018 were unaudited. The Company’s audit committee together with the management have reviewed the unaudited third quarterly results of the Group for the nine months ended 30 September 2018.

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 Group's management members and staff for their hard work and dedication throughout the period.

By Order of the Board

Cheng Xiaoyu

Chairman

Hong Kong, 6 November 2018