



環球數碼

Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)



2019

THIRD QUARTERLY REPORT

**For identification purpose only*

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CORPORATE INFORMATION	3
THIRD QUARTERLY RESULTS	
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
MANAGEMENT DISCUSSION AND ANALYSIS	15
INTERIM DIVIDEND	24
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES	24
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES	25
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES	25
SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES	26
SHARE OPTION SCHEME	27
DIRECTORS' INTERESTS IN COMPETING BUSINESSES	27
COMPLIANCE WITH CORPORATE GOVERNANCE CODE	27
COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS	28
AUDIT COMMITTEE	28
APPRECIATION	28

CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. Cheng Xiaoyu (*Chairman and Managing Director*)

Mr. Xu Liang

Mr. Xiao Yong (*appointed on 24 June 2019*)

Mr. Jin Guo Ping (*Deputy Managing Director*)
(*retired on 23 May 2019*)

Non-executive Director

Mr. Chen Zheng (*Deputy Chairman*)

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon

Prof. Japhet Sebastian Law

Mr. Lam Yiu Kin

Mr. Zheng Xiaodong (*appointed on 24 June 2019*)

Executive Committee

Ms. Cheng Xiaoyu (*Chairman*)

Mr. Xu Liang

Mr. Xiao Yong (*appointed on 24 June 2019*)

Mr. Jin Guo Ping (*retired on 23 May 2019*)

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)

Prof. Japhet Sebastian Law

Mr. Lam Yiu Kin

Nomination Committee

Ms. Cheng Xiaoyu (*Chairman*)

Mr. Xu Liang

Mr. Kwong Che Keung, Gordon

Prof. Japhet Sebastian Law

Mr. Lam Yiu Kin

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)

Ms. Cheng Xiaoyu (*Vice Chairman*)

Mr. Xu Liang

Mr. Kwong Che Keung, Gordon

Mr. Lam Yiu Kin

CORPORATE INFORMATION *(Continued)*

Compliance Officer	Ms. Cheng Xiaoyu
Company Secretary	Ms. Kam Man Yi, Margaret
Authorised Representatives	Ms. Cheng Xiaoyu Ms. Kam Man Yi, Margaret
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Unit 2112, 21/F, K. Wah Centre 191 Java Road North Point Hong Kong
Stock Code	8271
Website	www.gdc-world.com

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2019 with comparative figures for the corresponding periods in the year 2018.

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

For the nine months ended 30 September 2019

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$'000	2018 HK\$'000 (Restated)	2019 HK\$'000	2018 HK\$'000 (Restated)
Continuing operations					
Revenue	3				
Goods and services		9,901	10,863	31,787	51,156
Rental		10,821	11,192	34,568	34,477
Total revenue		20,722	22,055	66,355	85,633
Cost of sales and services		(9,397)	(13,663)	(37,094)	(56,166)
Gross profit		11,325	8,392	29,261	29,467
Other income	4	4,375	13,845	14,373	23,494
Distribution costs and selling expenses		(278)	(997)	(1,481)	(3,387)
Administrative expenses		(8,493)	(10,131)	(25,940)	(28,843)
Change in fair value of investment properties		16	–	(1,050)	–
Other gains and losses	5	19	(614)	203	496
Impairment losses, net		(213)	–	(443)	–
Other expenses		(3,498)	–	(12,483)	–
Finance costs		(243)	–	(517)	–
Profit before tax		3,010	10,495	1,923	21,227
Income tax expense	6	(2,408)	(150)	(4,785)	(7,013)
Profit (loss) for the period from continuing operations		602	10,345	(2,862)	14,214
Discontinued operations					
Profit for the period from discontinued operations	7	–	3,831	–	10,985
Profit (loss) for the period		602	14,176	(2,862)	25,199
Other comprehensive expense for the period					
Item that will not be reclassified to profit or loss:					
Exchange differences on translation to presentation currency		(9,501)	(27,692)	(9,824)	(39,138)
Total comprehensive expense for the period		(8,899)	(13,516)	(12,686)	(13,939)

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

(Continued)

For the nine months ended 30 September 2019

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$'000	2018 HK\$'000 (Restated)	2019 HK\$'000	2018 HK\$'000 (Restated)
Profit for the period attributable to owners of the Company:					
– from continuing operations		1,730	10,128	1,226	14,142
– from discontinued operations		–	2,518	–	7,187
		1,730	12,646	1,226	21,329
(Loss) profit for the period attributable to non-controlling interests:					
– from continuing operations		(1,128)	217	(4,088)	72
– from discontinued operations		–	1,313	–	3,798
		(1,128)	1,530	(4,088)	3,870
		602	14,176	(2,862)	25,199
Total comprehensive (expense) income for the period attributable to:					
Owners of the Company		(11,889)	(13,965)	(12,894)	(16,307)
Non-controlling interests		2,990	449	208	2,368
		(8,899)	(13,516)	(12,686)	(13,939)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	8				
From continuing and discontinued operations					
Basic		0.11	0.83	0.08	1.40
From continuing operations					
Basic		0.11	0.67	0.08	0.93

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 GEM Listing Rules.

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 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current period, the Group has applied, for the first time, certain new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated statement of profit or loss and other comprehensive income.

3. REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Goods and services				
Revenue from computer graphic ("CG") production	6,199	6,433	11,582	15,620
Revenue from television series and movies	129	1,113	10,495	26,021
Management services fee	3,573	3,317	9,710	9,515
	<u>9,901</u>	<u>10,863</u>	<u>31,787</u>	<u>51,156</u>
Rental income	<u>10,821</u>	<u>11,192</u>	<u>34,568</u>	<u>34,477</u>
Total revenue	<u>20,722</u>	<u>22,055</u>	<u>66,355</u>	<u>85,633</u>

4. OTHER INCOME

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Continuing operations				
Government grants	2,251	11,320	8,414	17,192
Interest income	1,906	2,453	5,422	5,857
Others	218	72	537	445
	4,375	13,845	14,373	23,494

5. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Continuing operations				
Changes in fair value of structured deposits	-	(614)	-	496
Gain on disposal of property, plant and equipment	19	-	203	-
	19	(614)	203	496

6. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Continuing operations				
PRC Enterprise Income Tax ("EIT"):				
Current tax	2,443	–	6,085	–
Underprovision (overprovision) in prior periods	15	–	(932)	–
	<u>2,458</u>	–	<u>5,153</u>	–
PRC withholding tax on distributed profit from a PRC subsidiary (Note)	–	–	–	6,825
Deferred tax	(50)	150	(368)	188
	<u>2,408</u>	150	<u>4,785</u>	7,013

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) had declared an one-off and non-recurring special dividend to the Company and withholding tax amounted to HK\$6,825,000 has been paid to the PRC tax bureau. According to the Law of the PRC on EIT (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 are not probable to declare dividend in the foreseeable future and deferred taxation has not been provided in respect of temporary difference attributable to the remaining retained earnings of the PRC subsidiaries 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 EIT Law and Implementation Rules 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 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 2019, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (nine months ended 30 September 2018: 15% to 25%).

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

7. DISCONTINUED OPERATIONS

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

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

7. DISCONTINUED OPERATIONS (Continued)

The results of the discontinued operations for the three months and nine months ended 30 September 2018 were as follows:

CG Training

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
Revenue from services	-	1,030	-	3,495
Cost of services	-	(966)	-	(2,598)
Other income	-	6	-	13
Distribution costs and selling expenses	-	(40)	-	(441)
Administrative expenses	-	(244)	-	(1,229)
	<hr/>		<hr/>	
Loss for the period from discontinued operation	-	(214)	-	(760)
	<hr/>		<hr/>	

Cultural Park

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
Revenue				
Services	-	1,711	-	5,564
Rental	-	7,993	-	29,026
	<hr/>		<hr/>	
Total revenue	-	9,704	-	34,590
Cost of services	-	(1,917)	-	(7,528)
Other income	-	(1)	-	184
Distribution costs and selling expenses	-	(8)	-	(55)
Administrative expenses	-	(1,259)	-	(3,633)
Rental expenses	-	(2,526)	-	(7,950)
Change in fair value of investment properties	-	59	-	(2,521)
Other gains and losses	-	30	-	(1,296)
	<hr/>		<hr/>	
Profit before tax	-	4,082	-	11,791
Income tax expense	-	(37)	-	(46)
	<hr/>		<hr/>	
Profit for the period from discontinued operation	-	4,045	-	11,745
	<hr/>		<hr/>	

8. EARNINGS PER SHARE

From continuing operations

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

	Three months ended 30 September		Nine months ended 30 September	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Earnings				
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	1,730	12,646	1,226	21,329
Less: profit for the period from discontinued operations	–	2,518	–	7,187
Earnings for the purpose of basic earnings per share from continuing operations	1,730	10,128	1,226	14,142
	'000	'000	'000	'000
Number of shares				
Number of ordinary shares for the purpose of basic earnings per share	1,518,256	1,518,256	1,518,256	1,518,256

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

8. EARNINGS PER SHARE *(Continued)*

From continuing and discontinued operations

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	1,730	12,646	1,226	21,329

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

From discontinued operations

For the three months ended 30 September 2018, basic earnings per share for the discontinued operations is HK\$0.16 cents earnings per share. For the nine months ended 30 September 2018, basic earnings per share for the discontinued operations is HK\$0.47 cents earnings per share. The earnings per share is arrived at based on the profit for the three months ended 30 September 2018 from discontinued operations of HK\$2,518,000 and profit for the nine months ended 30 September 2018 from discontinued operations of HK\$7,187,000, respectively, and the denominators detailed above for basic earnings per share.

9. 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	Property 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 2019 (audited)	15,183	75,856	445	245,881	6,635	45,787	(22,385)	(1,209)	68,228	434,421	(123,586)	310,835
Profit (loss) for the period	-	-	-	-	-	-	-	-	1,226	1,226	(4,088)	(2,862)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	(14,120)	-	-	(14,120)	4,296	(9,824)
Other comprehensive (expenses) income for the period	-	-	-	-	-	-	(14,120)	-	-	(14,120)	4,296	(9,824)
Total comprehensive (expenses) income for the period	-	-	-	-	-	-	(14,120)	-	1,226	(12,894)	208	(12,686)
Acquisition of additional interest in a PRC subsidiary	-	-	-	-	-	-	-	(744)	-	(744)	630	(114)
At 30 September 2019 (unaudited)	15,183	75,856	445	245,881	6,635	45,787	(36,505)	(1,953)	69,454	420,783	(122,748)	298,035
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	3,670	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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September 2019 (the “Period”), the Group recorded a profit attributable to owners of the Company of HK\$1,226,000 as a whole, representing a decrease of HK\$20,103,000 as compared with the profit attributable to owners of the Company of HK\$21,329,000 for the corresponding period of 2018. The decrease was mainly attributable to (1) a substantial decrease in revenue from CG creation and production segment resulted from the unsatisfactory box office receipt of an animated movie released in June this year; and (2) the cessation of recognizing all revenue derived from Phase I of the Pearl River Film Cultural Park for the nine months ended 30 September 2019 as a result of the derecognition of Phase I of the Pearl River Film Cultural Park as investment properties since 1 December 2018.

Revenue from the continuing operations for the Period amounted to HK\$66,355,000, representing a decrease of HK\$19,278,000 as compared with HK\$85,633,000 for the corresponding period of 2018, which was mainly attributable to the decrease in revenue from animated movies and television series and CG production of HK\$15,526,000 and HK\$4,038,000 respectively.

Cost of sales and services from the continuing operations for the Period amounted to HK\$37,094,000, representing a decrease of HK\$19,072,000 as compared with HK\$56,166,000 for the corresponding period of 2018, which was mainly attributable to (1) the decrease of HK\$6,974,000 in amortized programme costs of original projects and provision for impairment for the Period; and (2) the absence of relevant provision for depreciation and amortization of prepaid lease payments (as the GDC Building located in Shenzhen (the “Shenzhen Building”) was transferred to investment properties stated at fair value at the end of 2018), which reduced relevant cost by HK\$8,314,000 as compared with the corresponding period of last year.

Other income from the continuing operations for the Period amounted to HK\$14,373,000, representing a decrease of HK\$9,121,000 as compared with HK\$23,494,000 for the corresponding period of 2018, which was mainly attributable to the decrease in government grants of HK\$8,778,000.

Distribution costs and selling expenses from the continuing operations for the Period amounted to HK\$1,481,000, representing a decrease of HK\$1,906,000 as compared with HK\$3,387,000 for the corresponding period of 2018, which was mainly attributable to the decrease in promotion costs and travel expenses for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Administrative expenses from the continuing operations for the Period amounted to HK\$25,940,000, representing a decrease of HK\$2,903,000 as compared with HK\$28,843,000 for the corresponding period of 2018. The decrease in administrative expenses was mainly attributable to the decrease in staff cost, insurance premium, depreciation, amortization and office operation costs for the Period, which was partly offset by the increase in professional service fees.

The fair value of investment properties from continuing operations for the Period decreased by HK\$1,050,000. The Shenzhen Building is an investment property of the Group, which was transferred to investment properties since December 2018 and is stated at fair value.

Other gains from the continuing operations for the Period of HK\$203,000 (nine months ended 30 September 2018: HK\$496,000) represented the gain on disposal of fixed assets.

The impairment loss from continuing operations for the Period amounted to HK\$443,000 (nine months ended 30 September 2018: HK\$Nil), which represented the impairment loss recognized for trade receivables.

Other expenses for the Period amounted to HK\$12,483,000 (nine months ended 30 September 2018: HK\$Nil), being the costs incurred by the Pearl River Film Cultural Park. Since 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") rejected the appeal made by Guangdong Cultural Park in March 2018, Guangdong Cultural Park has conducted a series of negotiations with 珠江電影製片有限公司 ("Pearl River Film Production") as the judgment had not indicated the subsequent arrangement of Phase I of the Pearl River Film Cultural Park, with the hope to seek a win-win solution to continue the operation of the Pearl River Film Cultural Park. However, in the absence of any agreement, Pearl River Film Production attempted to seize the Pearl River Film Cultural Park without the consent of the Group at the end of November 2018. Therefore, the Group decided to derecognize Phase I of the Pearl River Film Cultural Park as investment properties and to state the Cultural Park operation as discontinued operations in December 2018. Despite the above accounting treatment and arrangement, the Group and Guangdong Cultural Park still strive to look for all possible solutions to protect their rights and legitimate interests in the Pearl River Film Cultural Park. In April 2019, Pearl River Film Production issued a lawsuit requesting the return of the Pearl River Film Cultural Park. Until a judgment is awarded, the Group still needs to maintain the normal operation of Phase I of the Pearl River Film Cultural Park and therefore expenses such as staff cost and office operation costs were recorded for maintaining the normal operation of the park. Other expenses also included the litigation costs of HK\$1,512,000 arising from the litigations with Pearl River Film Production (for details, please refer to the section headed "MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS" of this report) and provision for the interest of HK\$4,730,000 on accrued rental of the Pearl River Film Cultural Park as of 30 September 2019.

Finance costs from continuing operations for the Period amounted to HK\$517,000. The Group does not have any loans and such finance costs represent cost of the interest of the lease liabilities and rental deposit received as a result of the initial application of HKFRS 16 in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

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

From January to September 2019, the animated film production projects undertaken by our CG creation and production division mainly came from the PRC, including the full production process of two animated television series. Our CG creation and production division also started the intermediate production of a new animated television series. For original film and television series projects, while “Happy Little Submarine: Space Pals”, the seventh film of the “Happy Little Submarine” series was screened in the PRC during the “1 June” International Children’s Day 2019 time slot with box office of approximately RMB24,000,000, the division has also activated the creation of a new film for this series. Furthermore, “Soldier Shunliu: The Hero Battle”, a military-themed animated film adapted from the animated television series, has been filed with National Film Administration of the PRC for approval after its post-production process had been completed and is expected to be screened during an appropriate time slot next year.

The construction of Foshan Digital Animation Industry Base* (佛山數碼動漫產業基地) has been accelerated. Synergies have been developed between the production team and the Shenzhen division as they have begun to share the production of animated films and television films and complete the targeted production capacity stage by stage as planned. In the future, a production team of appropriate scale will be established in accordance with the development needs of our creation and production business in order to enhance our competitive advantages in the industry. At the same time, the division intends to establish an entrepreneur incubation hub, and the partnering team in the animation industry will be introduced to promote collaboration in clustered industry chain. After entering into a cooperation agreement with the independent third parties in December 2018, the division has received cash contribution in the amount of RMB20,000,000 in aggregate, and as provided under the cooperation agreement, the contracting parties agreed to respectively contribute properties and cash for 10% and 5% of equity interests in Foshan Global Digital Media Technology Co., Ltd.* (佛山環球數碼媒體科技有限公司), an indirect wholly-owned subsidiary of the Company. Currently, the transfer of equity interests and properties are pending for the issuance of the title certificate of the relevant properties. Please refer to the announcement of the Company dated 17 December 2018 for details of the cooperation agreement.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

The division continued to invest resources in technology research and development, and significantly improved the technology such as scene effect realization, animated character shows, and fantasy visual effects. Extended application of graphics processing unit (GPU) hardware in technical process helps to reduce production cost of film and television series projects. In addition, with the self-developed CG creation and animation management database system applicable to all processes, a cross-regional multi-team collaboration platform was established.

In terms of intellectual property right protection, the division completed three applications for computer software copyrights from January to September 2019 and has obtained the relevant certificates from National Copyright Administration of the PRC. Valid registration will be processed for the stories and images created by the division to ensure copyright protection. Registration was completed for 91 stories and images in total with the relevant certificates obtained.

From January to September 2019, the division proactively participated in various marketing campaigns, including “The 17th Hong Kong International Licensing Show (HKILS)”, “The 45th Hong Kong Toys & Games Fair”, “The 23rd Hong Kong International Film & TV Market (FILMART)”, “The China Food & Drinks Fair” in Chengdu, “China (Shenzhen) International IP Licensing Industry EXPO”, and “China International Animation Copyright Fair” held in Dongguan, in order to enhance the influence of the original IP brands and promote resources cooperation.

From January to September 2019, the original animated movie “Happy Little Submarine: 20000 Leagues under the Sea” won the 11th Spiritual Civilization Development “Five-one Project” Award in Guangdong Province (廣東省第十一屆精神文明建設「五個一工程」獎) and was selected as the “Recommended Film for Primary Students” (「推薦小學生觀看的優秀影片」) by the General Office of the Ministry of Education of the PRC and the Publicity Department of the Central Committee of the Communist Party of China. “The Legend of Shangri-la”, an animated short film, and “Toy Guardians”, an animated movie, were selected as excellent Chinese animation works, to be screened in the “Chinese Cartoons and Comic Art Show in Japan” (「中國動漫日本行」) Event. “Happy Little Submarine: Space Pals”, an original animated movie, and “Soldier Shunliu”, a television animation, were awarded as the “Excellent Animation” (「優秀動畫影片」) and the “Best Authorized Animation Brand” (「最佳動漫品牌授權」) respectively in the 11th “Dynamic Golden Sheep” Excellent Work Support Plan (第十一屆「動感金羊」優秀作品扶持計劃). “Soldier Shunliu” even received the “Best Original Work Award” (「最佳原創作品獎」) in the “Golden Bamboo Award” established by the Copyright Society of China and China Cultural Industry Development Corporation (中國文化產業發展集團).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

In addition, the division extends cooperation in “industry, academia and research sectors” with Institute for Cultural Industries, Shenzhen University and Shenzhen No. 2 Vocational Technical School (深圳市第二職業技術學校) in order to promote the school-enterprise co-development and to jointly explore a new model for cultivating talents for professional digital creation.

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

Property Leasing and Building Management Services

From January to September 2019, the consolidated income from the GDC Building of the Group located in Shenzhen amounted to HK\$44,270,000, representing a slight increase of 1% as compared with the corresponding period of last year. The division placed high priority on the management and maintenance of the property and its supporting facilities, equipment and related sites, therefore equipment was inspected regularly. Service satisfaction survey was conducted on tenants, with an average satisfaction rate of 94%. The division has also established three management standards systems, namely ISO9001, ISO14001 and OHSAS18001, which passed the review conducted by an independent third party professional certification organization and were awarded certificates in September 2019. From January to September 2019, a small number of tenants reduced their office area or opted to relocate to office premises with lower rent, primarily affected by general economic condition. The market expects an increase in the supply of office projects in the future with gross floor area over 1,000,000 m², resulting in more intensive competition in the office rental market. Facing the pressure arising from declining occupancy rate and rental rate, the building management team will endeavour to improve our service and quality of the building and offer diversified solutions to enhance the bargaining power and secure steadily growing rental incomes.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS

On 16 March 2018, Guangdong Cultural Park received a civil judgment (the “Higher Court Civil Judgment”) from the Guangdong Higher People’s Court, which rejected the appeal lodged in November 2016 and upheld the original decision. Details of the litigations are set out in announcements of the Company dated 12 April 2016, 21 October 2016, 16 December 2016 and 20 March 2018.

According to the Higher Court Civil Judgment, the Guangdong Higher People’s Court rejected Guangdong Cultural Park’s appeal and the original decision (the “First Civil Judgment”) of the Intermediate People’s Court of Guangzhou City of Guangdong Province of the PRC (中國廣東省廣州市中級人民法院) (the “Guangzhou Intermediate People’s Court”) was upheld, which included, among others, the judgment that the framework agreement entered into between Guangdong Cultural Park and Pearl River Film Production on 28 March 2007 (the “Framework Agreement”) should be terminated on 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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

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

Notwithstanding any of the above decisions, the Board would like to emphasize that it did not represent the Group’s intention to give up any of its rights and legitimate interests in the Pearl River Film Cultural Park. Guangdong Cultural Park remains committed to continuing the negotiation with Pearl River Film Production and finalizing the operating terms of Phase I of the Pearl River Film Cultural Park or reasonable investment compensation in order to protect its rights and legitimate interests in the Pearl River Film Cultural Park. From January to September 2019, Guangdong Cultural Park received rental income and management services fees of HK\$29,204,000 related to discontinued operations which were fully provided as accrued rental. In addition, the interest expenses of HK\$4,730,000 in relation to the accrued rental for Phase I of the Pearl River Film Cultural Park were provided from January to September 2019. As at 30 September 2019, the Group has provided for the accrued rental and settlement payables amounted to HK\$156,974,000 (31 December 2018: HK\$128,800,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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

On 3 April and 4 April 2019, Guangdong Cultural Park received two summonses (“Summons I” and “Summons II”) both dated 3 April 2019 from the People’s Court of Haizhu District of Guangzhou City of the PRC (中國廣州市海珠區人民法院) (the “People’s Court of Haizhu District”) and the Guangzhou Intermediate People’s Court, respectively. According to Summons I, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and has pleaded for a court order to require Guangdong Cultural Park to return the entire Pearl River Film Cultural Park and its facilities and related documents. According to Summons II, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and claimed for property occupation fee of the Pearl River Film Cultural Park and related interest (which Pearl River Film Production estimated to be in the amounts of RMB148,745,800 and RMB9,593,000 as of 22 March 2019, respectively) to be paid by Guangdong Cultural Park. On 8 April 2019, each of Guangdong Cultural Park and 廣州高尚商業經營管理有限公司 (“Gaoshang Property Management”) received a summons (“Summons III”) dated 4 April 2019 from the People’s Court of Haizhu District. According to Summons III, Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park and Gaoshang Property Management and claimed for property occupation fee of certain parking spaces of the Pearl River Film Cultural Park in the amount of RMB26,457,900 and related interest (which Pearl River Film Production estimated to be in the amount of RMB2,520,062 as of 27 March 2019).

In April 2019, Guangdong Cultural Park and Gaoshang Property Management were informed by the People’s Court of Haizhu District that in relation to the legal proceedings under Summons III, the court had granted an order to preserve the bank account of each of Guangdong Cultural Park and Gaoshang Property Management, respectively, based on the application by Pearl River Film Production. Such bank accounts were used by the respective companies for cash receipts and payments in relation to the Pearl River Film Cultural Park and the aggregate deposits in the two bank accounts amounted to HK\$21,768,000 as at 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

In July 2019, Guangdong Cultural Park, as plaintiff, has filed a lawsuit against Pearl River Film Production and claimed for the compensation of damages of RMB10,000,000 in respect of the November 2018 Incident. The People's Court of Haizhu District issued the Notice of Case Acceptance on 5 July 2019 and granted an order on 31 July 2019 to freeze the bank deposit of Pearl River Film Production in the amount of RMB10,000,000.

In mid-October 2019, Guangdong Cultural Park and Gaoshang Property Management received a notice from the People's Court of Haizhu District that a trial is scheduled on 20 November 2019 for the litigation related to Summons III. As at the date of this report, Guangdong Cultural Park was still waiting for the notices on trial dates for Summons I and Summons II from the courts. Should there be any significant updates, the Company will make timely disclosure on both the Stock Exchange's website and the Company's website.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: Nil).

The Board had declared a special dividend of HK\$0.08 per share of the Company (the "Special Dividend"), amounting to approximately HK\$121,460,000 in total on 20 July 2018. The Special Dividend was paid on 20 August 2018 to the shareholders of the Company whose names appeared on the register of members of the Company on 7 August 2018.

Apart from the above, the Board does not recommend the payment of any interim or special dividend for the nine months ended 30 September 2018.

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 2019.

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

As at 30 September 2019, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Approximate percentage of total issued share capital of the Company
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Chen Zheng	Beneficial owner	185,988,200	-	185,988,200	12.25%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	-	10,800,820	0.71%
Mr. Xiao Yong	Beneficial owner	380,000	-	380,000	0.03%

Save as disclosed above, as at 30 September 2019, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the nine months ended 30 September 2019 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2019, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

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

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

Save as disclosed above, as at 30 September 2019, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

On 18 June 2013, 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 under the Share Option Scheme 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 2019, none of the Directors had an interest in a business (other than those businesses where the Director was appointed as a director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules throughout the nine months ended 30 September 2019, except for a deviation from the code provision A.2.1 of the CG Code.

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

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the nine months ended 30 September 2019.

AUDIT COMMITTEE

The Group's third quarterly results for the nine months ended 30 September 2019 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 2019.

APPRECIATION

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

By Order of the Board

Cheng Xiaoyu

Chairman and Managing Director

Hong Kong, 8 November 2019