

2020

FIRST QUARTERLY REPORT



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*)
Mr. Wang Hongpeng (*Managing Director*)
Mr. Xu Liang
Mr. Xiao Yong

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

Executive Committee

Ms. Cheng Xiaoyu (*Chairman*)
Mr. Wang Hongpeng
Mr. Xu Liang
Mr. Xiao Yong

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)*

Authorised Representatives	Ms. Cheng Xiaoyu Ms. Kam Man Yi, Margaret
Compliance Officer	Ms. Cheng Xiaoyu
Company Secretary	Ms. Kam Man Yi, Margaret
Auditor	PricewaterhouseCoopers <i>Certified Public Accountants and Registered PIE Auditor</i>
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

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2020 with comparative figures for the corresponding period in the year 2019.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2020

		Three months ended 31 March	
	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Continuing operations			
Revenue	3	19,191	17,937
Cost of sales		(13,208)	(7,923)
		<hr/>	<hr/>
Gross profit		5,983	10,014
Other income	4	2,097	4,583
Distribution and selling expenses		(2,407)	(560)
Administrative expenses		(8,623)	(8,077)
Other (losses)/gains, net	5	(55)	379
		<hr/>	<hr/>
Operating (loss)/profit		(3,005)	6,339
Finance cost		(23)	–
		<hr/>	<hr/>
(Loss)/profit before income tax		(3,028)	6,339
Income tax credit/(expense)	6	593	(2,171)
		<hr/>	<hr/>
(Loss)/profit for the period from continuing operations		(2,435)	4,168
		<hr/>	<hr/>
Discontinued operations			
Loss for the period	7	(4,580)	(3,955)
		<hr/>	<hr/>
(Loss)/profit for the period		(7,015)	213
		<hr/>	<hr/>
Other comprehensive (loss)/income: Item that will not be reclassified to profit or loss: Exchange differences on translation to presentation currency		(3,948)	7,899
		<hr/>	<hr/>
Total comprehensive (loss)/income for the period		(10,963)	8,112
		<hr/>	<hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the three months ended 31 March 2020

		Three months ended 31 March	
		2020	2019
	NOTE	HK\$'000	HK\$'000
(Loss)/profit for the period attributable to:			
– Equity holders of the Company:			
– Continuing operations		(2,435)	4,253
– Discontinued operations		(3,114)	(2,689)
		<u>(5,549)</u>	<u>1,564</u>
– Non-controlling interests:			
– Continuing operations		–	(85)
– Discontinued operations		(1,466)	(1,266)
		<u>(1,466)</u>	<u>(1,351)</u>
		<u>(7,015)</u>	<u>213</u>
Total comprehensive (loss)/income for the period attributable to:			
– Equity holders of the Company:			
– Continuing operations		(13,266)	22,888
– Discontinued operations		1,566	(9,981)
		<u>(11,700)</u>	<u>12,907</u>
– Non-controlling interests			
		<u>737</u>	<u>(4,795)</u>
		<u>(10,963)</u>	<u>8,112</u>
		HK cents	HK cents
(Loss)/earnings per share attributable to the equity holders of the Company:			
Basic and diluted (loss)/earnings per share			
– from continuing operations	8	(0.16)	0.28
– from discontinued operations		(0.21)	(0.18)
		<u>(0.37)</u>	<u>0.1</u>

NOTES:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of comprehensive income for the three months ended 31 March 2020 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

In the current period, the Group has applied, for the first time, certain new and amendments to Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the financial year beginning on 1 January 2020. The application of the new and amendments to HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of comprehensive income.

3. REVENUE

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

	Three months ended 31 March	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from computer graphic ("CG") production	3,583	1,901
Revenue from original television series and movies	2,023	1,084
Management service fee	2,761	2,975
Rental income	10,824	11,977
	<hr/> 19,191 <hr/>	<hr/> 17,937 <hr/>

4. OTHER INCOME

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
Interest income	1,449	1,482
Government grants	573	3,101
Others	75	–
	2,097	4,583

5. OTHER (LOSSES)/GAINS, NET

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
(Loss)/gain on disposal of property, plant and equipment	(39)	136
Others	(16)	243
	(55)	379

6. INCOME TAX CREDIT/(EXPENSE)

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
PRC Corporate Income Tax ("CIT"):		
Current tax	–	(2,183)
Deferred income tax	593	12
Income tax credit/(expense)	593	(2,171)

6. INCOME TAX CREDIT/(EXPENSE) (Continued)

Notes:

- a. No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the three months ended March 2020 and 2019.
- b. The PRC CIT represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the People's Republic of China ("PRC", for the purpose of this report shall exclude Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan), in which the Group operates. The tax rate applicable to the subsidiaries in the PRC is 25%, except for a subsidiary of the Group in the PRC which was approved as High and New Technology Enterprise and accordingly, it is subject to a reduced preferential CIT rate of 15% for a 3-year period according to the applicable CIT Law, and would successively expire by 2020. Moreover, a subsidiary was qualified for the local government tax concession scheme to enjoy a preferential tax rate for the period.

7. DISCONTINUED OPERATIONS

In prior years, the Group was involved in the culture, entertainment and related commercial property investment operation through a non-wholly owned subsidiary of the Group. As a result of the full impairment of the investment property of Phase I of 珠影文化產業園 as set out in "MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS", the Cultural Park operation was discontinued with effect from 1 December 2018. Certain costs continued to be incurred during the three months ended 31 March 2020 and 2019 as the matters set out in "MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS" remain unsolved.

The results of the discontinued operations for the three months ended 31 March 2020 and 2019 were as follows:

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
Other income	–	13
Administrative expenses	(2,725)	(2,286)
Settlement expenses	(1,847)	(1,555)
	<hr/>	<hr/>
Loss before income tax	(4,572)	(3,828)
Income tax expense	(8)	(127)
	<hr/>	<hr/>
Loss for the period from discontinued operations	(4,580)	(3,955)

8. (LOSS)/EARNINGS PER SHARE

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company		
– from continuing operations	(2,435)	4,253
– from discontinued operations	(3,114)	(2,689)
	(5,549)	1,564

	Three months ended 31 March	
	2020	2019
	No. of	No. of
	shares	shares
	'000	'000
Weighted average number of ordinary shares in issue	1,517,348	1,518,256

	Three months ended 31 March	
	2020	2019
	HK cents	HK cents
Basic and diluted (loss)/earnings per share		
– from continuing operations	(0.16)	0.28
– from discontinued operations	(0.21)	(0.18)
Total basic and diluted (loss)/earnings per share	(0.37)	0.1

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during both periods excluding ordinary shares repurchased by the Company.

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2020 and 2019.

9. COMPARATIVE AMOUNT

Certain comparative amounts have been reclassified to conform with the current period's presentation.

10. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Property revaluation reserve	Exchange reserve	Special reserve	Treasury share reserve	Retained earnings	Sub-total	Non-controlling interest	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>	<i>HKS'000</i>
At 1 January 2020	15,177	75,799	445	245,881	8,120	45,787	(31,395)	(1,953)	(13)	76,461	434,309	(125,578)	308,731
Comprehensive loss													
Loss for the period	-	-	-	-	-	-	-	-	-	(5,549)	(5,549)	(1,466)	(7,015)
Other comprehensive (loss)/income													
Currency translation differences	-	-	-	-	-	-	(6,151)	-	-	-	(6,151)	2,203	(3,948)
Other comprehensive (loss)/income for the period	-	-	-	-	-	-	(6,151)	-	-	-	(6,151)	2,203	(3,948)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(6,151)	-	-	(5,549)	(11,700)	737	(10,963)
Transactions with owner													
Repurchase of treasury shares	-	-	-	-	-	-	-	-	(71)	-	(71)	-	(71)
Cancellation of treasury shares	(6)	(78)	-	-	-	-	-	-	84	-	-	-	-
	(6)	(78)	-	-	-	-	-	-	13	-	-	-	(71)
At 31 March 2020	15,171	75,721	445	245,881	8,120	45,787	(37,546)	(1,953)	-	70,912	422,538	(124,841)	297,697
At 1 January 2019	15,183	75,856	445	245,881	6,635	45,787	(22,385)	(1,209)	-	68,228	434,421	(123,586)	310,835
Comprehensive income													
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	1,564	1,564	(1,351)	213
Other comprehensive income/(loss)													
Currency translation differences	-	-	-	-	-	-	11,343	-	-	-	11,343	(3,444)	7,899
Other comprehensive income/(loss) for the period	-	-	-	-	-	-	11,343	-	-	-	11,343	(3,444)	7,899
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	11,343	-	-	1,564	12,907	(4,795)	8,112
At 31 March 2019	15,183	75,856	445	245,881	6,635	45,787	(11,042)	(1,209)	-	69,792	447,328	(128,381)	318,947

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2020 (the "Period"), revenue from the continuing operations amounted to HK\$19,191,000, representing an increase of HK\$1,254,000 as compared with HK\$17,937,000 for the corresponding period of 2019, which was mainly attributable to the increase in revenue of CG creation and production division of HK\$2,621,000. Revenue from property leasing and building management services decreased by HK\$1,367,000 as compared with the corresponding period of last year. The revenue from original television series and movies for the Period included the box office receipt from the animated film screened in January 2020 while no animated film was screened in the corresponding period of last year.

Cost of sales from the continuing operations for the Period amounted to HK\$13,208,000, representing an increase of HK\$5,285,000 as compared with HK\$7,923,000 for the corresponding period of 2019, which was mainly attributable to the fact that the cost of one original animated film screened in January 2020 was recognized during the Period while no such cost was recognized during the corresponding period of last year.

Other income from the continuing operations for the Period amounted to HK\$2,097,000, representing a decrease of HK\$2,486,000 as compared with HK\$4,583,000 for the corresponding period of 2019, which was mainly attributable to, among others, the decrease in government grants of HK\$2,528,000.

Distribution and selling expenses from the continuing operations for the Period amounted to HK\$2,407,000, representing an increase of HK\$1,847,000 as compared with HK\$560,000 for the corresponding period of 2019, which was mainly attributable to the marketing expenses of the film screened during the Period.

Administrative expenses from the continuing operations for the Period amounted to HK\$8,623,000, representing an increase of HK\$546,000 as compared with HK\$8,077,000 for the corresponding period of 2019. The increase in administrative expenses was mainly attributable to the increase in the staff cost during the Period.

Other net losses from the continuing operations for the Period amounted to HK\$55,000 (three months ended 31 March 2019: other net gains of HK\$379,000), which was mainly attributable to the loss on disposal of the fixed assets.

Finance costs from continuing operations for the Period amounted to HK\$23,000 (three months ended 31 March 2019: HK\$nil). The Group did not have any loan and such finance costs represented the interest element on the lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Losses from the continuing operations for the Period amounted to HK\$2,435,000, as compared with the profit of HK\$4,168,000 for the corresponding period of 2019, representing a decrease of HK\$6,603,000.

As the matter in relation to the Cultural Park as set out in the section headed “MANAGEMENT DISCUSSION AND ANALYSIS – LITIGATIONS” in this report remains unsolved, certain costs, mainly including the operating expenses and settlement expenses of the Cultural Park in an amount of HK\$4,572,000 (three months ended 31 March 2019: HK\$3,841,000), were incurred for discontinued operations during the Period. Combining losses from continuing operations and discontinued operations, losses of the Group for the Period amounted to HK\$7,015,000, as compared with the profit of HK\$213,000 for the corresponding period of last year.

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 product businesses derived from animation brands.

In the first quarter of 2020, the animated film production projects undertaken by our CG creation and production division are mainly from the PRC, including the full production process of one set of animated television series. The division has also been actively in negotiation for new animated film production projects. During the 2019 China (Shenzhen) International Cultural Industries Fair, an animated film project planned by the division with Yangtze finless porpoises as characters gained attention and support from Jiangxi Cultural Performance Group* (江西省文演集團), which procured the entering into a three-party cooperation agreement by Institute of Digital Media Technology (Shenzhen) Limited* (環球數碼媒體科技研究(深圳)有限公司) (an indirect wholly-owned subsidiary of the Company), Jiangxi Cultural Performance Group* (江西省文演集團) and Jiangxi Hukou Cultural Tourism Group* (江西湖口文旅集團) in April 2020. For original films and television series projects, “Soldier Shunliu: The Hero Battle”, a military-themed animated film adapted from an animated television series, was screened in mid-January 2020. However, due to the outbreak of the 2019 novel coronavirus disease (the “COVID-19 outbreak”), all movie theatres in the PRC were temporarily closed and the said film was suspended accordingly, thus affecting the box office receipt seriously. As a result, the film was released online. On the other hand, the production of the eighth film of the “Happy Little Submarine” series has been completed, and is scheduled to be screened in the PRC in the near future.

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MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

The production team established in the Foshan Digital Animation Industry Base* (佛山數碼動漫產業基地) (“Foshan Base”) continued to synergize with the production team in Shenzhen by sharing the production work of animated films and television series to achieve the targeted production capacity by stages as planned and achieving the operation model of staff integration and resources sharing. Meanwhile, the division strived to build a role model of Industry-Academia-Research derived from the regional culture of the Foshan Base jointly with local government departments and enterprises. Subsequent to the division entering into a cooperation agreement with the independent third parties in December 2018, it is currently pending for the issuance of the title certificate of relevant properties before the transfer of equity interests and properties can take place. Please refer to the announcement of the Company dated 17 December 2018 for details of the cooperation agreement.

The division continued to invest resources in technology research and development, with the application of real-time graphics processing unit (GPU) in games engines rendering completed. Document automated management and optimized process system under production were further improved and developed for commercialization. Meanwhile, the research and development of a full-process collaboration platform of mobile terminals has started, and remote working was realized in the early stage of the COVID-19 outbreak to ensure the smooth operation of project production and management. As the animation film industry has entered into a phase of innovation and transformation driven by new technologies of artificial intelligence, cloud computing and big data, competition between short and long animated videos on the internet and mobile terminals emerged. The division would employ technical innovation as its core competitiveness to target the audience more precisely, creating animated IP content products with cutting-edge new technologies and developing a new interaction experience both for online and offline.

In terms of intellectual property protection, the division completed the registration of approximately ten copyright works and three computer softwares during the first quarter of 2020. Patent application and trademark registration were also in process and under planning.

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MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Creation and Production (Continued)

In the first quarter of 2020, the division actively advanced with brand development and licensing, with some animated films released and licensed for the second round to maintain brand awareness. In the innovation development of the animation business, the division has strengthened the competitiveness of digital virtual characters and digital visual contents via cooperation with Tencent and other players in the digital industry while creating new cultural and creative products in the areas of animation-themed entertainment, interactive experience, digital sports and physical fitness education for children.

As the COVID-19 outbreak still continues globally, it is expected that the animation subcontracting business and original projects will be significantly and negatively affected by the economic downturn. Accordingly, in the first quarter, the Group has re-positioned its development and remoulded the corporate culture and actively promoted both traditional film and television business and innovative business. The Group aimed at the development of digital visual services driven by innovative technologies so as to facilitate the transformation and upgrading of traditional film and television business and to expand innovative business focused on the development of IP digital operation.

Property Leasing and Building Management Services

During the first quarter of 2020, the consolidated income from the GDC Building of the Group located in Nanshan District, Shenzhen, the PRC amounted to HK\$13,585,000, representing a decrease of 9% as compared with the corresponding period of last year. Since the COVID-19 outbreak, all staff members of the property management company were willing to report for duty during the holiday break for epidemic prevention and control in various aspects of the building. Relevant policies of epidemic prevention and control of Shenzhen Municipal Government and functional departments in the community were actively implemented and publicized to all corporate clients of the building as well as assisted corporate clients with their resumption of work and production and staff control management. Based on the current situation, prevention and control cannot be loosened in the second quarter and the focus will continue to be the disinfection of facilities in public areas of building, and managing body temperature check for personnel entering the building. It is expected that revenue and profit of the division in the future may be affected by the potential changes in the lease terms or the rental adjustments as requested by tenants with whom the Group is currently under discussion. According to relevant information, the vacancy rate of office buildings in Shenzhen increased significantly in the first quarter of 2020, and rental prices of buildings in the neighborhood have declined gradually. With rent-free offers found in other areas to attract customers, it is expected that the competition in the rental market will be intensified in the near future. The division will actively study to broaden the source of revenue and strictly control fees and expenses to ensure profitability.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS

On 16 March 2018, 廣東環球數碼創意產業有限公司 (“Guangdong GDC”), a non-wholly owned subsidiary of the Group, 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 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 GDC’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 GDC and 珠江電影製片有限公司 (“Pearl River Film Production”) on 28 March 2007 (the “Framework Agreement”) should be terminated on 22 March 2016; Guangdong GDC 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 GDC. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong GDC 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 GDC to return Phase II of 珠影文化產業園 (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 GDC 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 GDC to return the land of Phase II of the Pearl River Film Cultural Park before proceeding to discuss any related terms. After several discussions, Guangdong GDC 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 to express the sincerity of the Company for continuing operation of Phase I of the Pearl River Film Cultural Park 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.

On 7 August 2018, Guangdong GDC 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 GDC has conducted a series of negotiations with Pearl River Film Production, including the submission of written proposals to Pearl River Film Production.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

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 fully impair 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 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 GDC 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.

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

On 3 April and 4 April 2019, Guangdong GDC 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 GDC and has pleaded for a court order to require Guangdong GDC 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 GDC 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 GDC. On 8 April 2019, each of Guangdong GDC 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 GDC 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).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

In April 2019, Guangdong GDC 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 GDC 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\$38,533,000 as at 31 March 2020.

In July 2019, Guangdong GDC, as plaintiff, has filed a lawsuit (the "July 2019 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 deposits of Pearl River Film Production in the amount of RMB10,000,000.

On 31 December 2019, a civil judgment (民事判決書) from the Guangzhou Intermediate People's Court dated 30 December 2019 (the "Summons II's Civil Judgment") was handed down to Guangdong GDC. Details of the Summons II's Civil Judgment are set out in the announcement of the Company dated 3 January 2020.

In mid-February 2020, a civil judgment (民事判決書) regarding the July 2019 Lawsuit was handed down by the People's Court of Haizhu District, which rejected all claims from Guangdong GDC. As at the date of this report, each of Guangdong GDC and Pearl River Film Production has lodged appeal with the Guangdong Higher People's Court in respect of Summons II's judgment and was waiting for the notice on trial date from the court; Guangdong GDC was still waiting for the notice on trial date for Summons I from the court while the court hearing of Summons III has been conducted and pending the judgment to be handed down; Guangdong GDC has lodged appeal in respect of the July 2019 Lawsuit's judgment. Should there be any significant updates, the Company will make timely disclosure on both the Stock Exchange's website and the Company's website.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LITIGATIONS *(Continued)*

For the first quarter of 2020, Guangdong GDC received rental income and management services fees of HK\$3,849,000 related to discontinued operations which were fully provided as accrued rental. In addition, the interest expenses of HK\$1,847,000 in relation to the accrued rental for Phase I of the Pearl River Film Cultural Park were provided for the three months ended 31 March 2020. As at 31 March 2020, the Group has provided for the accrued rental and settlement payables amounted to HK\$172,847,000 (31 December 2019: HK\$170,208,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

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

During the three months ended 31 March 2020, the Company repurchased its ordinary shares on the Stock Exchange as follows:

Month of the repurchases	Total number of ordinary shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Aggregate consideration paid <i>HK\$</i>
January 2020	162,000	0.157	0.135	23,438
February 2020	336,000	0.150	0.125	46,240

All repurchased shares were cancelled during the Period and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2020.

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

As at 31 March 2020, 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	12.26%
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 31 March 2020, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the three months ended 31 March 2020 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 31 March 2020, 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)	40.81%
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	619,168,023 (Note)	40.81%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	619,168,023 (Note)	40.81%

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 31 March 2020, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

On 18 June 2013, a share option scheme of the Company (the “Share Option Scheme”) which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted 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 three months ended 31 March 2020, none of the Directors had an interest in a business (other than those businesses where the Director was appointed as a director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules throughout the three months ended 31 March 2020.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2020.

AUDIT COMMITTEE

The Group's first quarterly results for the three months ended 31 March 2020 were unaudited. The Company's audit committee together with the management have reviewed the unaudited first quarterly results of the Group for the three months ended 31 March 2020.

APPRECIATION

On behalf of the Board, I would like to extend our sincere gratitude 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 for their hard work and dedication throughout the Period.

By Order of the Board
Cheng Xiaoyu
Chairman

Hong Kong, 8 May 2020