



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)



**THIRD QUARTERLY REPORT**  
**2016**

*\* For identification purpose only*

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*This report, for which the directors (the “Directors”) 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 the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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## CORPORATE INFORMATION

### Board of Directors

### Executive Directors

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

### Non-executive Director

Mr. Leung Shun Sang, Tony

### Independent non-executive Directors

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

### Executive Committee

Mr. Li Shaofeng (*Chairman*)  
Mr. Chen Zheng  
Mr. Jin Guo Ping  
Ms. Cheng Xiaoyu

### Audit Committee

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

### Nomination Committee

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

### Remuneration Committee

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

### Compliance Officer

Mr. Chen Zheng

### Company Secretary

Ms. Kam Man Yi, Margaret

## **CORPORATE INFORMATION** *(Continued)*

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

## 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 2016 with comparative figures for the corresponding periods in the year 2015.

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

For the nine months ended 30 September 2016

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	3	39,325	43,349	112,607	145,701
Cost of sales		(20,379)	(25,875)	(59,879)	(85,070)
Gross profit		18,946	17,474	52,728	60,631
Other income	4	3,310	2,553	12,232	7,773
Distribution costs and selling expenses		(994)	(2,102)	(2,799)	(13,754)
Administrative expenses		(16,618)	(13,636)	(52,388)	(44,682)
Finance costs	5	–	(223)	–	(2,578)
Other gains and losses	6	(23,922)	363	(23,660)	25,381
Impairment loss on investment property		(85,463)	–	(85,463)	–
(Loss) profit before tax		(104,741)	4,429	(99,350)	32,771
Income tax expense	7	(1,454)	(2,102)	(5,170)	(5,465)
(Loss) profit for the period		(106,195)	2,327	(104,520)	27,306
<b>Other comprehensive expenses:</b>					
<b>Item that will not be reclassified to profit or loss:</b>					
Exchange differences on translation of financial statements from functional currency to presentation currency		(1,604)	(22,386)	(21,598)	(22,350)
<b>Items that may be reclassified subsequently to profit or loss:</b>					
Decrease in fair value of available-for-sale investment		–	–	(3,210)	(445)
Cumulative gain reclassified to profit or loss on sale of available-for-sale investment		–	–	–	(20,789)
		–	–	(3,210)	(21,234)
Other comprehensive expenses for the period		(1,604)	(22,386)	(24,808)	(43,584)
Total comprehensive expenses for the period		(107,799)	(20,059)	(129,328)	(16,278)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
(Loss) profit for the period attributable to:					
Owners of the Company		<b>(71,820)</b>	868	<b>(71,085)</b>	22,329
Non-controlling interests		<b>(34,375)</b>	1,459	<b>(33,435)</b>	4,977
		<b>(106,195)</b>	2,327	<b>(104,520)</b>	27,306
Total comprehensive (expenses) income for the period attributable to:					
Owners of the Company		<b>(73,720)</b>	(20,281)	<b>(94,968)</b>	(20,026)
Non-controlling interests		<b>(34,079)</b>	222	<b>(34,360)</b>	3,748
		<b>(107,799)</b>	(20,059)	<b>(129,328)</b>	(16,278)
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
(Loss) earnings per share:					
Basic	8	<b>(4.73)</b>	0.06	<b>(4.68)</b>	1.47

NOTES:

**1. BASIS OF PREPARATION**

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

**2. PRINCIPAL ACCOUNTING POLICIES**

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

Except as described below, 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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current period.

**3. REVENUE**

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts for computer graphic ("CG") creation and production ( <i>Note</i> )	12,501	11,554	33,990	56,276
Rental and building management service fee income	24,815	25,637	73,455	74,298
CG training fee	2,009	6,158	5,162	15,127
	<b>39,325</b>	<b>43,349</b>	<b>112,607</b>	<b>145,701</b>

*Note:* During the nine months ended 30 September 2015, an amount of approximately HK\$15,406,000 was attributable to revenue from the release of an animated film based on an agreed sharing percentage of the box office receipts. No animated film has been released during the nine months ended 30 September 2016.



#### 4. OTHER INCOME

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	1,354	684	3,489	3,827
Government grants	1,922	1,754	8,650	3,673
Others	34	115	93	273
	<b>3,310</b>	<b>2,553</b>	<b>12,232</b>	<b>7,773</b>

#### 5. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings	-	223	-	2,578

#### 6. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain on disposal of available-for-sale investment	-	-	-	20,789
Changes in fair value of held-for-trading investments	-	-	-	6,265
Loss on fair value changes of derivative financial instrument	-	-	(201)	(2,117)
Changes in fair value of structured deposits	(138)	488	302	692
(Loss) gain on disposal of property, plant and equipment	(200)	13	(177)	(110)
Impairment loss on trade receivables	-	(138)	-	(138)
Write-off of construction deposit	(23,584)	-	(23,584)	-
	<b>(23,922)</b>	<b>363</b>	<b>(23,660)</b>	<b>25,381</b>

**7. INCOME TAX EXPENSE**

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC Enterprise Income Tax ("EIT"):				
Current tax	<b>1,497</b>	2,102	<b>5,472</b>	6,139
Under(over)provisions in prior years	–	–	<b>42</b>	(674)
Deferred tax	<b>(43)</b>	–	<b>(344)</b>	–
Income tax expense	<b>1,454</b>	2,102	<b>5,170</b>	5,465

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.

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

According to the Circular of State Council for the tax policies on the animation enterprise (Caishui [2009] No. 65), the PRC subsidiaries which qualified as animation enterprise are entitled to tax concession, whereby their applicable tax rate will progressively increase to 25%. The tax concession will expire in 2016. One of the PRC subsidiaries was able to enjoy a preferential tax rate at 12.5% from 2014 till 2016 as it was qualified as animation enterprise. For the nine months ended 30 September 2016, the relevant tax rates for the Group's subsidiaries in the PRC were ranged from 12.5% to 25% (nine months ended 30 September 2015: 12.5% to 25%).

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

## 8. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) 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	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(Loss) earnings</b>				
(Loss) earnings for the purposes of basic (loss) earnings per share ((loss) profit for the period attributable to owners of the Company)	<b>(71,820)</b>	868	<b>(71,085)</b>	22,329
	'000	'000	'000	'000
<b>Number of shares</b>				
Number of ordinary shares in issue for purposes of basic (loss) earnings per share	<b>1,518,256</b>	1,518,256	<b>1,518,256</b>	1,518,256

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

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											Non-controlling interests	Total
	Share capital	Share premium	Capital contribution	Contributed surplus	Statutory reserve	Investment revaluation reserve	Exchange reserve	Special reserve	Retained earnings	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2016 (audited)	15,183	75,856	445	245,881	1,953	5,565	13,796	(1,209)	586,364	943,834	53,411	997,245	
Loss for the period	-	-	-	-	-	-	-	-	(71,085)	(71,085)	(33,435)	(104,520)	
Exchange differences on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	(20,673)	-	-	(20,673)	(925)	(21,598)	
Decrease in fair value of available-for-sale investment	-	-	-	-	-	(3,210)	-	-	-	(3,210)	-	(3,210)	
Other comprehensive expenses for the period	-	-	-	-	-	(3,210)	(20,673)	-	-	(23,883)	(925)	(24,808)	
Total comprehensive expenses for the period	-	-	-	-	-	(3,210)	(20,673)	-	(71,085)	(94,968)	(34,360)	(129,328)	
At 30 September 2016 (unaudited)	15,183	75,856	445	245,881	1,953	2,355	(6,877)	(1,209)	515,279	848,866	19,051	867,917	
At 1 January 2015 (audited)	15,183	75,856	445	245,881	1,107	25,986	53,644	(1,209)	576,216	993,109	46,631	1,039,740	
Profit for the period	-	-	-	-	-	-	-	-	22,329	22,329	4,977	27,306	
Exchange differences on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	(21,121)	-	-	(21,121)	(1,229)	(22,350)	
Decrease in fair value of available-for-sale investment	-	-	-	-	-	(445)	-	-	-	(445)	-	(445)	
Cumulative gain reclassified to profit or loss on sale of available-for-sale investment	-	-	-	-	-	(20,789)	-	-	-	(20,789)	-	(20,789)	
Other comprehensive expenses for the period	-	-	-	-	-	(21,234)	(21,121)	-	-	(42,355)	(1,229)	(43,584)	
Total comprehensive (expenses) income for the period	-	-	-	-	-	(21,234)	(21,121)	-	22,329	(20,026)	3,748	(16,278)	
At 30 September 2015 (unaudited)	15,183	75,856	445	245,881	1,107	4,752	32,523	(1,209)	598,545	973,083	50,379	1,023,462	

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (nine months ended 30 September 2015: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the nine months ended 30 September 2016 (the “period under review”), the Group recorded a loss attributable to owners of the Company of HK\$71,085,000 as compared to a profit attributable to owners of the Company of HK\$22,329,000 for the corresponding period in 2015. The loss for the period was mainly due to an impairment loss on properties interest under construction and a write-off of the construction deposit in respect of the 珠影文化產業園 (the “Pearl River Film Cultural Park”) amounting to approximately HK\$109,047,000 in aggregate.

Revenue for the nine months ended 30 September 2016 amounted to HK\$112,607,000 (nine months ended 30 September 2015: HK\$145,701,000). The decrease was mainly attributable to a decrease of HK\$22,286,000 and HK\$9,965,000 in revenue from contracts for computer graphics (“CG”) creation and production and income from CG training respectively. The decrease in revenue from contracts for CG creation and production was mainly due to the decreases in box office revenue and revenue from digital animated technology exhibitions and large event production attributable to the PRC’s economic slowdown. During the nine months ended 30 September 2015, the CG creation and production division completed and released one animation film, while no film was released during the corresponding period in 2016, leading to a decrease of HK\$14,334,000 in the box office revenue of the CG creation and production division when compared with the corresponding period in 2015. The decrease in revenue from CG training was primarily due to the consolidation of the CG training division in the first half of 2016.

Cost of sales for the nine months ended 30 September 2016 amounted to HK\$59,879,000, representing a decrease of approximately 30% when compared with that of HK\$85,070,000 in the corresponding period in 2015. The decrease was mainly attributable to the fact that the direct cost of an animation film released last year was recognized for the period, while no such cost was recognized for the corresponding period of this year. In addition, the production cost of contracts for CG creation and production also decreased in line with the decrease in revenue.

Other income for the nine months ended 30 September 2016 amounted to HK\$12,232,000 (nine months ended 30 September 2015: HK\$7,773,000). Other income comprised mainly government grants of HK\$8,650,000 (nine months ended 30 September 2015: HK\$3,673,000) and interest income of HK\$3,489,000 (nine months ended 30 September 2015: HK\$3,827,000).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

Distribution costs and selling expenses for the nine months ended 30 September 2016 amounted to HK\$2,799,000 (nine months ended 30 September 2015: HK\$13,754,000), representing a decrease of approximately 80%. The decrease was mainly attributable to the fact that no film was released during the period under review.

Administrative expenses for the nine months ended 30 September 2016 amounted to HK\$52,388,000 (nine months ended 30 September 2015: HK\$44,682,000), which represented an increase of approximately 17%. The increase was primarily due to the litigation costs of 廣東環球數碼創意產業有限公司 (“Guangdong Cultural Park”), a subsidiary of the Company, incurred in the second quarter of 2016 and all of the rental cost of Phase II of the Pearl River Film Cultural Park during the period was recognized starting 2016.

An impairment loss on investment properties of HK\$85,463,000 was recognised during the period under review. As disclosed in the section headed “Litigations” in this report, the Intermediate People’s Court of Guangzhou City of Guangdong Province of the PRC (中國廣東省廣州市中級人民法院) (“Guangzhou Intermediate People’s Court”) declared that the framework agreement on the reconstruction of the Pearl River Film Park and its supplemental agreements (珠影文化產業園－改造建設合作框架協議及其補充協議) (“Framework Agreement and its Supplemental Agreements”) were terminated as of 22 March 2016. According to the opinion of our PRC legal advisor, after the Framework Agreement and its Supplemental Agreements were terminated, both parties ceased to have all the rights and obligations thereunder. Accordingly, for the nine months ended 30 September 2016, an impairment of HK\$85,463,000 was made by the Group in respect of the properties interest under construction of the Pearl River Film Cultural Park.

There were no finance costs incurred for the nine months ended 30 September 2016 (nine months ended 30 September 2015: HK\$2,578,000). All bank loans were repaid in advance in July 2015.

Other gains and losses for the nine months ended 30 September 2016 was HK\$23,660,000 of net losses (nine months ended 30 September 2015: HK\$25,381,000 of net gains). The decrease in net gains was mainly attributable to 1) the recognition of the profit from disposal of available-for-sale investments of HK\$20,789,000 arising from the completion of the first disposal of shares of GDC Technology Limited for the nine months ended 30 September 2015, while no such gain was recognized in the corresponding period in 2016; and 2) the write-off of the construction deposit of HK\$ 23,584,000 as a result of a civil judgement (民事判決書) (the “Civil Judgement”) dated 11 October 2016 from the Guangzhou Intermediate People’s Court (Please refer to the section headed “Litigations” in this report for details).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW AND OUTLOOK

#### *CG creation and production*

The revenue from the CG creation and production division for the nine months ended 30 September 2016 amounted to HK\$74,021,000, representing a decrease of HK\$22,643,000 or approximately 23% as compared with that of HK\$96,664,000 in the corresponding period of 2015.

During the period under review, the revenue from the contracts for CG creation and production was mainly generated from international animated television drama projects and the clients we worked with were mainly from Europe and the United States. In respect of original work projects, “Smart Shunliu – Eagle Boy”, an animated television drama with 52 episodes produced in collaboration with the Television and Art Centre under the Military and Political Bureau of Jinan province of the PRC, was well-received by the broadcast channels and the audience with positive feedback after it was first broadcasted on the major cartoon satellite TV channels in the country in March this year. The viewership rating of the animated television drama was among the top ten when compared with those of the animated television dramas broadcasted in the same period. It was also included in the broadcast recommendation as the outstanding domestically produced animated television drama by the State Administration of Press, Publication, Radio, Film and Television. The television drama was later broadcasted on online video platforms and achieved an accumulated hit rate of over 200 million times. In view of the positive responses, the division plans to launch a sequel and a film version of this drama. Meanwhile, the division is producing an original film and has initially entered into cooperation agreements with a number of well-known game brands on content placement and joint promotion. In addition to the development of several original work projects at its Shenzhen creative centre, the division entered into a framework agreement with the Department of Animation and Digital Arts, Communication University of China in Beijing in the first quarter of 2016 to set up a joint film production workshop, and established a production team in Foshan, hoping to accelerate the development of original work projects.

In respect of digital animated technology exhibitions and large event production projects, the income dropped substantially during the period under review, which affected the revenue of the division. It was mainly affected by the PRC’s economic slowdown which led to the significant drop in the production budget of television stations and large-scale theme parks. This seriously affected the business of the Group’s subsidiary in Beijing and led to a sharp decline in income. On the other hand, Shenzhen Global Digital Creations Technology Limited\* (深圳市環球數碼創意科技有限公司) (“Shenzhen Creations”), a subsidiary of the Group in Shenzhen, secured production tender projects in relation to three large-scale theme parks in the first half of the year. Looking forward, Shenzhen Creations will strive to work on the research and development of interactive technology so as to further enhance the quality and creativity in the field of CG production.

\* *For identification purpose only*

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW AND OUTLOOK *(Continued)*

#### *CG creation and production (Continued)*

In the first quarter of 2016, the division joined the “20th Hong Kong International Film & TV Market” as a main exhibitor in Guangdong Pavilion, so as to introduce to local and overseas visitors some of the original animation films and TV series that we have produced. Moreover, the division kept a close eye on new technology and development trends of the industry and conducted in-depth investigation and assessment of the latest popular virtual reality (“VR”) products and its contents in films and dramas. In view of the fact that the techniques of VR contents in films and dramas are becoming more mature and there is substantial market demand, the division is currently commencing development of creation processes, visual design of virtual experience and the training of professionals in the VR areas.

The Group has established a sound brand image in the industry after years of development. Its original work projects, “Smart Shunliu – Eagle Boy”, won the “Animated Golden Sheep – Best TV Animation”\* (「動感金羊 – 最佳電視動畫片」) in China International Animation Copyright Fair held in August. Looking forward, the Group expects a diversified and sustainable development of the business in CG creation and production.

#### *CG Training*

The revenue from the CG training division for the nine months ended 30 September 2016 amounted to HK\$5,162,000, representing a decrease of HK\$9,965,000 or approximately 66% as compared with that of HK\$15,127,000 in the corresponding period of 2015.

After the consolidation and subsequent relocation of the CG training division’s business from Guangzhou and Shanghai to Shenzhen in February and April 2016, the teaching team revised the content of curriculum, introduced some of the personnel from the CG creation and production division to teach the practical courses and lengthened the training sessions, hoping that it would nurture more experienced technicians so as to supply the Group and the industry with talents. Currently, most of the major competitors in the market have shifted to the game industry. Although there is still a demand for talents in the film and drama CG industry, the salary of junior personnel in the industry is relatively low and cannot match the salary standard of the game industry, resulting in difficulties and challenges in the recruitment work. The division’s loss for the nine months ended 30 September 2016 increased by HK\$4,106,000 as compared with the corresponding period in 2015, which was due to, apart from the decrease in revenue as compared with the corresponding period in 2015, the significant increase in expenses incurred in connection with the closure of the schools in Shanghai and Guangzhou. Therefore, the division’s performance has deteriorated as compared with that of the corresponding period in 2015. The fourth quarter is the low season typically for the training sector. In addition to enhancing the training and incentive for the sales team, the division plans to strengthen the existing websites and explore adding new elements to training courses in response to the market trend in the hope of enlarging the market share, stabilizing the revenue and generating earnings.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW AND OUTLOOK *(Continued)*

#### *Cultural Park*

The revenue from the Cultural Park division for the nine months ended 30 September 2016 amounted to HK\$33,424,000, representing a decrease of approximately 1% as compared with that of HK\$33,910,000 in the corresponding period of 2015 due to the impact of the Value-added Tax (“VAT”). The revenue was mainly generated from shop rental and building management service fee income for the Phase I of the Pearl River Film Cultural Park. The division had been in continuous discussions with the landlord, 珠江電影製片有限公司 (“Pearl River Film Production”), regarding the development plan and mode of cooperation in respect of Phase II of the Pearl River Film Cultural Park, including but not limited to the extension of the original construction period, reassessment of future development plan of the properties or returning interests of the property to Pearl River Film Production at a price to be agreed between the parties, with the aim of achieving a win-win solution. However, on 17 October 2016, Guangdong Cultural Park received the Civil Judgement from the Guangzhou Intermediate People’s Court dated 11 October 2016. According to the Civil Judgement, the Guangzhou Intermediate People’s Court declared that the Framework Agreement and its Supplemental Agreements were terminated as of 22 March 2016. According to the opinion of PRC lawyer, after the Framework Agreement and its Supplemental Agreements were terminated, both parties ceased to have all the rights and obligations thereunder. Both Pearl River Film Production and Guangdong Cultural Park shall work out a solution regarding the future collaboration clauses for the Phase I project of the Pearl River Film Cultural Park. The Group and Pearl River Film Production are currently under negotiation in relation to the re-entering of an agreement for the Phase I project. As at the date of this report, negotiations are underway and no agreement has been arrived. In light of the Civil Judgement, an impairment loss on properties interest under construction and a write-off of the construction deposit in respect of the Pearl River Film Cultural Park which in aggregate is approximately RMB92,473,000 are reflected in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2016. Please refer to the announcements of the Company dated 12 April 2016 and 21 October 2016 and the section headed “Litigations” in this report for further information.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### LITIGATIONS

The following are the litigations the Group involved in as at 30 September 2016:

- (1)(a) On 11 April 2016, Guangdong Cultural Park received a notice of response to action (應訴通知書) (the “Notice of Response to Action”) from the Guangzhou Intermediate People’s Court dated 6 April 2016. It was set out in the Notice of Response to Action that Pearl River Film Production as the plaintiff (the “Plaintiff”) has initiated legal proceedings against Guangdong Cultural Park in respect of an alleged breach of the Framework Agreement and its Supplemental Agreements (“Alleged Breach”). The Plaintiff has demanded to terminate the Framework Agreement and claimed, among others, for compensation of the Plaintiff’s damages in the form of economic loss in the amount of approximately RMB75,779,000 resulting from the Alleged Breach.

On 17 October 2016, Guangdong Cultural Park received the Civil Judgement from Guangzhou Intermediate People’s Court dated 11 October 2016. According to the Civil Judgement, the Guangzhou Intermediate People’s Court declared that the Framework Agreement and its Supplemental Agreements were terminated as of 22 March 2016. According to the opinion of PRC lawyer, after the Framework Agreement and its Supplemental Agreements were terminated, both parties ceased to have all the rights and obligations thereunder. The Civil Judgement also stated that Guangdong Cultural Park shall pay late payment surcharges for the overdue rental during the period from 1 October 2015 to 21 March 2016 and that Pearl River Film Production is entitled to keep the construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production were dismissed.

In light of the Civil Judgement, an impairment loss on properties interest under construction and a write-off of the construction deposit in respect of the Pearl River Film Cultural Park which in aggregate is approximately RMB92,473,000 are reflected in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2016.

- (1)(b) Guangdong Cultural Park denied the Plaintiff’s accusations and the responsibility of the Alleged Breach and filed a counterclaim against the Plaintiff to demand the Plaintiff to continue to execute the Framework Agreement and to compensate Guangdong Cultural Park’s damages in the form of economic loss which amounted to RMB100,000,000. On 17 October 2016, Guangdong Cultural Park received a civil judgement in relation to the counterclaim (民事判決書(反申索)) (the “Civil Judgement – Counterclaim”) from the Guangzhou Intermediate People’s Court dated 11 October 2016. According to the Civil Judgement – Counterclaim, all claims made by Guangdong Cultural Park were dismissed.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### LITIGATIONS *(Continued)*

- (2) On 16 June 2016, two of the Company's indirect wholly-owned subsidiaries in the PRC, namely Institute of Digital Media Technology (Shenzhen) Limited\* (環球數碼媒體科技研究(深圳)有限公司) ("IDMT (Shenzhen)"), Shenzhen Global Digital Television and Culture Company Limited\* (深圳市環球數碼影視文化有限公司) and the Company's indirect non-wholly owned subsidiary, Shenzhen Global Digital Creations Technology Limited\* (深圳市環球數碼創意科技有限公司) (collectively, the "Defendants"), received the same notice of response to action No. 610 (應訴通知書編號610) (the "Notice of Response to Action No. 610") from Intermediate People's Court of Shenzhen City of Guangdong Province of the PRC (中國廣東省深圳市中級人民法院) (the "Shenzhen Intermediate People's Court") dated 15 June 2016 together with a civil complaint No. 610 (民事起訴狀編號610) (the "Civil Complaint No. 610") issued by The Foundry Visionmongers Limited ("Foundry"). It was set out in the Civil Complaint No. 610 that Foundry has initiated legal proceedings against the Defendants in respect of infringement of Foundry's computer software copyrights including making unauthorised copies, installation and for commercial use of certain software application at its place of business. Foundry has claimed for, among others, damages in the form of economic loss in the aggregate amount of RMB5,000,000.

On the same day, Shenzhen Nanshan Global Digital Training School\* (深圳市南山區環球數碼培訓學校) (the "Training School") operated by IDMT (Shenzhen) also received a notice of response to action No. 611 (應訴通知書編號611) (the "Notice of Response to Action No. 611") from the Shenzhen Intermediate People's Court dated 15 June 2016 together with a civil complaint No. 611 (民事起訴狀編號611) (the "Civil Complaint No. 611") issued by Foundry. It was set out in the Civil Complaint No. 611 that Foundry has initiated legal proceedings against the Training School in respect of infringement of the Foundry's computer software copyrights including unauthorised use of certain software applications in commercial training. Foundry has claimed for, among others, damages in the form of economic loss in the aggregate amount of RMB5,000,000.

On 9 August 2016, the Company has made an announcement that the PRC legal advisor of the Defendants and the Training School was informed by the Shenzhen Intermediate People's Court that Foundry has filed an application to withdraw the claims under the Civil Complaint No. 610 and Civil Complaint No. 611. On 25 August 2016, the Company received the Civil Ruling (民事裁定書) of two cases respectively from the Shenzhen Intermediate People's Court, permitting the withdrawal of proceedings on the two cases of Foundry.

\* For identification purpose only

## 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 2016.

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

As at 30 September 2016, 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 issued share capital of the Company
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Chen Zheng	Beneficial owner	185,988,200	–	185,988,200	12.25%
Mr. Leung Shun Sang, Tony	Beneficial owner	30,008,200	–	30,008,200	1.98%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	–	10,800,820	0.71%

Save as disclosed above, as at 30 September 2016, 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 2016 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2016, 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

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

*Note: Upper Nice is an indirect wholly-own subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporations are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.*

Save as disclosed above, as at 30 September 2016, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **SHARE OPTION SCHEME**

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

## **DIRECTORS’ INTERESTS IN COMPETING BUSINESSES**

During the nine months ended 30 September 2016, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with businesses of the Group.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The code provision A.6.7 of the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (the “Code”) requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the view of shareholders. Prof. Japhet Sebastian Law, the independent non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 29 June 2016 as he was out of Hong Kong.

Save as disclosed above, the Company has complied with all the code provisions in the Code throughout the nine months ended 30 September 2016.

## **COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of provisions 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 2016.

## AUDIT COMMITTEE

The Group's third quarterly results for the nine months ended 30 September 2016 were unaudited. The Company's audit committee (the "Audit Committee") has reviewed the 2016 unaudited third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company for, amongst other things, reviewing the third quarterly results of the Group for the nine months ended 30 September 2016.

## APPRECIATION

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

By Order of the Board

**Li Shaofeng**

*Chairman*

Hong Kong, 7 November 2016