



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)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

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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.

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This announcement, 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 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 announcement 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 announcement misleading.

* For identification purpose only

FINAL RESULTS

The board of Directors of the Company (the “Board”) hereby announces the audited financial results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017 with comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Revenue	2	133,915	146,759
Cost of sales		<u>(90,319)</u>	<u>(78,330)</u>
Gross profit		43,596	68,429
Other income		14,786	22,580
Distribution costs and selling expenses		(22,908)	(3,812)
Administrative expenses		(55,357)	(65,284)
Impairment loss on investment properties	9	–	(84,467)
Decrease in fair value of investment properties	9	(579)	–
Other gains and losses	4	(2,432)	(27,138)
Share of results of an associate		<u>(23)</u>	<u>–</u>
Loss before tax		(22,917)	(89,692)
Income tax expense	5	<u>(1,098)</u>	<u>(5,602)</u>
Loss for the year	6	<u>(24,015)</u>	<u>(95,294)</u>
Other comprehensive income (expenses):			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences on translation to presentation currency		58,601	(55,217)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Decrease in fair value of available-for-sale investment		<u>(4,057)</u>	<u>(1,508)</u>
Other comprehensive income (expenses) for the year		<u>54,544</u>	<u>(56,725)</u>
Total comprehensive income (expenses) for the year		<u>30,529</u>	<u>(152,019)</u>

	<i>NOTE</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(Loss) profit for the year attributable to:			
Owners of the Company		(29,295)	(62,158)
Non-controlling interests		5,280	(33,136)
		<u>(24,015)</u>	<u>(95,294)</u>
 Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		23,606	(116,767)
Non-controlling interests		6,923	(35,252)
		<u>30,529</u>	<u>(152,019)</u>
		<i>HK cents</i>	<i>HK cents</i>
 Loss per share	 8		
Basic		<u>(1.93)</u>	<u>(4.09)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment		200,373	199,086
Investment properties	9	439,616	409,263
Prepaid lease payments		5,071	4,837
Interest in an associate		–	–
Restricted bank deposit	10	46,253	17,797
		<u>691,313</u>	<u>630,983</u>
Current assets			
Programmes		8,341	–
Productions work in progress		6,403	19,416
Amounts due from customers for contract work		–	2,455
Trade receivables	11	21,179	20,085
Other receivables and deposits		6,152	9,252
Amount due from an associate		995	–
Prepaid lease payments		132	123
Available-for-sale investment		–	20,936
Structured deposits		1,686	19,007
Bank balances and cash		294,687	274,528
		<u>339,575</u>	<u>365,802</u>
Current liabilities			
Advances from customers		5,184	4,733
Amounts due to customers for contract work		–	101
Trade payables	12	1,653	2,426
Other payables and accruals	13	92,625	77,682
Tax liabilities		9,224	10,719
Derivative financial instrument		–	16,879
Deferred income		2,443	512
		<u>111,129</u>	<u>113,052</u>
Net current assets		<u>228,446</u>	<u>252,750</u>
Total assets less current liabilities		<u>919,759</u>	<u>883,733</u>

	<i>NOTE</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current liabilities			
Deferred income		2,657	121
Deferred tax liabilities		<u>41,347</u>	<u>38,386</u>
		<u>44,004</u>	<u>38,507</u>
Net assets		<u>875,755</u>	<u>845,226</u>
Capital and reserves			
Share capital	14	15,183	15,183
Reserves		<u>835,490</u>	<u>811,884</u>
Equity attributable to owners of the Company		850,673	827,067
Non-controlling interests		<u>25,082</u>	<u>18,159</u>
Total equity		<u>875,755</u>	<u>845,226</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Investment revaluation reserve	Exchange reserve	Special reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	HK\$'000	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	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 year	-	-	-	-	-	-	-	-	(62,158)	(62,158)	(33,136)	(95,294)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	(53,101)	-	-	(53,101)	(2,116)	(55,217)
Decrease in fair value of available-for-sale investment	-	-	-	-	-	(1,508)	-	-	-	(1,508)	-	(1,508)
Other comprehensive expenses for the year	-	-	-	-	-	(1,508)	(53,101)	-	-	(54,609)	(2,116)	(56,725)
Total comprehensive expenses for the year	-	-	-	-	-	(1,508)	(53,101)	-	(62,158)	(116,767)	(35,252)	(152,019)
Sub-total	15,183	75,856	445	245,881	1,953	4,057	(39,305)	(1,209)	524,206	827,067	18,159	845,226
Transfer to statutory reserve	-	-	-	-	2,363	-	-	-	(2,363)	-	-	-
At 31 December 2016	15,183	75,856	445	245,881	4,316	4,057	(39,305)	(1,209)	521,843	827,067	18,159	845,226
(Loss) profit for the year	-	-	-	-	-	-	-	-	(29,295)	(29,295)	5,280	(24,015)
Exchange differences on translation to presentation currency	-	-	-	-	-	-	56,958	-	-	56,958	1,643	58,601
Decrease in fair value of available-for-sale investment	-	-	-	-	-	(4,057)	-	-	-	(4,057)	-	(4,057)
Other comprehensive (expenses) income for the year	-	-	-	-	-	(4,057)	56,958	-	-	52,901	1,643	54,544
Total comprehensive (expenses) income for the year	-	-	-	-	-	(4,057)	56,958	-	(29,295)	23,606	6,923	30,529
Sub-total	15,183	75,856	445	245,881	4,316	-	17,653	(1,209)	492,548	850,673	25,082	875,755
Transfer to statutory reserve	-	-	-	-	146	-	-	-	(146)	-	-	-
At 31 December 2017	15,183	75,856	445	245,881	4,462	-	17,653	(1,209)	492,402	850,673	25,082	875,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. REVENUE

An analysis of the Group’s revenue for the year is as follows:

	2017 <i>HK\$’000</i>	2016 <i>HK\$’000</i>
Revenue from contracts for computer graphic (“CG”) creation and production (<i>note</i>)	26,127	43,340
Rental and building management service fee income	101,339	97,166
CG training fee	6,449	6,253
	<u>133,915</u>	<u>146,759</u>

Note: During the year ended 31 December 2017, an amount of approximately HK\$14,276,000 (2016: HK\$Nil) is attributable to revenue from the release of two animated films based on an agreed sharing percentage of the box office receipts.

3. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group is currently organised into three operating divisions. These operating divisions are the basis upon which the information that is regularly reviewed by the CODM is prepared and are analysed under HKFRS 8 as follows:

- CG creation and production – CG creation and production, exhibition of television series and movies as well as property rental income and building management service fee income
- CG training – provision of CG and animation training
- Cultural park – culture, entertainment and related commercial property investment

The above operating divisions constitute the reportable segments of the Group.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by operating and reportable segments:

For the year ended 31 December 2017

	CG creation and production <i>HK\$’000</i>	CG training <i>HK\$’000</i>	Cultural park <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
Revenue	<u>80,762</u>	<u>6,449</u>	<u>46,704</u>	<u>133,915</u>
Segment results	<u>(23,451)</u>	<u>792</u>	<u>17,196</u>	(5,463)
Unallocated income and other gains and losses				748
Unallocated expenses				<u>(18,202)</u>
Loss before tax				<u>(22,917)</u>

For the year ended 31 December 2016

	CG creation and production <i>HK\$'000</i>	CG training <i>HK\$'000</i>	Cultural park <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>96,454</u>	<u>6,253</u>	<u>44,052</u>	<u>146,759</u>
Segment results	<u>31,138</u>	<u>(4,113)</u>	<u>(98,937)</u>	(71,912)
Unallocated income and other gains and losses				509
Unallocated expenses				<u>(18,289)</u>
Loss before tax				<u>(89,692)</u>

Segment results represent the profit earned by or loss incurred from each segment without allocation of investment income and central administration costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers.

There were no material inter-segment sales in the current and prior years.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

At 31 December 2017

	CG creation and production <i>HK\$'000</i>	CG training <i>HK\$'000</i>	Cultural park <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	481,119	1,399	500,602	983,120
Unallocated assets				
– Bank balances and cash				45,575
– Others				2,193
Consolidated total assets				<u>1,030,888</u>
Liabilities				
Segment liabilities	63,210	2,497	87,387	153,094
Unallocated liabilities				
– Others				2,039
Consolidated total liabilities				<u>155,133</u>

At 31 December 2016

	CG creation and production <i>HK\$'000</i>	CG training <i>HK\$'000</i>	Cultural park <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	461,180	2,860	445,335	909,375
Unallocated assets				
– Available-for-sale investment				20,936
– Bank balances and cash				63,801
– Others				2,673
				<u>996,785</u>
Consolidated total assets				
Liabilities				
Segment liabilities	63,669	1,905	66,696	132,270
Unallocated liabilities				
– Derivative financial instrument				16,879
– Others				2,410
				<u>151,559</u>
Consolidated total liabilities				

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to the operating segments other than unallocated assets attributed to the Company, the Group's management companies and investment holding companies.
- all liabilities are allocated to the operating segments other than unallocated liabilities attributed to the Company, the Group's management companies and investment holding companies.

Other segment information

For the year ended 31 December 2017

	Amounts included in the measure of segment profit or loss or segment assets					Consolidated total HK\$'000
	CG creation and production HK\$'000	CG training HK\$'000	Cultural park HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	
	Additions to non-current assets (<i>note</i>)	4,456	-	-	4,456	
Depreciation of property, plant and equipment	15,802	129	224	16,155	586	16,741
Loss on disposal of property, plant and equipment	-	-	-	-	2	2
Impairment loss on programmes	11,001	-	-	11,001	-	11,001
Allowance for doubtful debts (reversed) recognised, net	(314)	-	2,749	2,435	-	2,435
Share of results of an associate	23	-	-	23	-	23
Amortisation of prepaid lease payments	127	-	-	127	-	127
Interest income	(6,029)	(22)	(10)	(6,061)	(749)	(6,810)
Government grants	(7,749)	(35)	-	(7,784)	-	(7,784)

For the year ended 31 December 2016

	Amounts included in the measure of segment profit or loss or segment assets					Consolidated total HK\$'000
	CG creation and production HK\$'000	CG training HK\$'000	Cultural park HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	
	Additions to non-current assets (<i>note</i>)	2,839	-	-	2,839	
Depreciation of property, plant and equipment	16,175	2,690	265	19,130	886	20,016
Loss (gain) on disposal of property, plant and equipment	196	(22)	-	174	-	174
Allowance for doubtful debts recognised	316	-	-	316	-	316
Amortisation of prepaid lease payments	128	-	-	128	-	128
Interest income	(4,331)	(11)	(8)	(4,350)	(509)	(4,859)
Government grants	(17,536)	(70)	-	(17,606)	-	(17,606)
Write-off of construction deposit	-	-	23,310	23,310	-	23,310
Impairment loss on investment properties	-	-	84,467	84,467	-	84,467

Note: Non-current assets exclude restricted bank deposit.

Geographical information

The Group's operations are located mainly in the People's Republic of China (the "PRC", for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan).

The Group's revenue from external customers by geographical location of the customers, and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets (note)	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
PRC	133,242	117,636	643,678	611,243
Denmark	334	13,951	–	–
USA	261	14,509	–	–
France	78	–	–	–
India	–	663	–	–
Hong Kong	–	–	1,382	1,943
	<u>133,915</u>	<u>146,759</u>	<u>645,060</u>	<u>613,186</u>

Note: Non-current assets exclude restricted bank deposit.

Information about major customers

During the years ended 31 December 2017 and 2016, none of the customers contributed over 10% of the total revenue of the Group.

4. OTHER GAINS AND LOSSES

	2017 HK\$'000	2016 HK\$'000
Allowance for doubtful debts	(2,435)	(316)
Loss on disposal of property, plant and equipment	(2)	(174)
Loss on fair value changes of derivative financial instrument	–	(201)
Changes in fair value of structured deposits	5	35
Write-off of construction deposit (note 9)	–	(23,310)
Late payment surcharges on overdue rental (note 9)	–	(3,172)
	<u>(2,432)</u>	<u>(27,138)</u>

5. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The income tax expense comprises:		
PRC Enterprise Income Tax (“EIT”)		
Current tax	1,029	6,651
Under(over)provision in prior years	14	(509)
	<u>1,043</u>	<u>6,142</u>
Deferred tax	55	(540)
	<u>1,098</u>	<u>5,602</u>

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

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the EIT rate of the Group’s 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 for the tax policies on the animation enterprise (Caishui [2009] No. 65), the PRC subsidiaries which are qualified as animation enterprises are entitled to tax concession, whereby their applicable tax rates will progressively increase to 25%. The tax concession was expired 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. In addition, according to the Circular of the State Administration of Taxation for the Enterprise income tax policies on the advanced technology service enterprise (“ATSE”) (Caishui [2014] No. 59), one of the PRC subsidiaries was able to enjoy a preferential tax rate at 15% from 2015 till 2017 as it is qualified as ATSE. Furthermore, according to the Circular of the State Administration of Taxation on the issues concerning implementation of the preferential income tax for hi-tech enterprise (Guoshui Han [2009] No. 203), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 2017 to 2020 as it is qualified as hi-tech enterprise. For the year ended 31 December 2017, the relevant tax rates for the Group’s subsidiaries in the PRC was ranged from 15% to 25% (2016: 12.5% to 25%).

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

6. LOSS FOR THE YEAR

	2017	2016
	HK\$'000	HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments:		
– Salaries, wages and other benefits	79,996	89,105
– Retirement benefit scheme contributions	5,372	5,280
	<hr/>	<hr/>
Total staff costs	85,368	94,385
Less: amounts included in contract costs	(2,889)	(10,877)
amounts included in productions work in progress	(22,486)	(11,120)
	<hr/>	<hr/>
	59,993	72,388
	<hr/>	<hr/>
Impairment loss on programmes (included in cost of sales)	11,001	–
Amortisation of prepaid lease payments	127	128
Auditor's remuneration	1,500	1,560
	<hr/>	<hr/>
Depreciation of property, plant and equipment	17,636	22,445
Less: amounts included in contract costs	–	(1,260)
amounts included in productions work in progress	(895)	(1,169)
	<hr/>	<hr/>
	16,741	20,016
	<hr/>	<hr/>
Exchange gain, net	(82)	(745)
Minimum lease payments under operating leases	18,816	19,119
	<hr/>	<hr/>
Gross rental income from investment properties	(30,072)	(27,475)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	2,463	2,728
	<hr/>	<hr/>
	(27,609)	(24,747)
	<hr/>	<hr/>

7. DIVIDENDS

No dividend is paid, declared or proposed during the years ended 31 December 2017 and 2016, and no dividend has been proposed since the end of the reporting period.

8. LOSS PER SHARE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(29,295)</u>	<u>(62,158)</u>
	2017 <i>'000</i>	2016 <i>'000</i>
Number of shares		
Number of ordinary shares for the purposes of basic loss per share	<u>1,518,256</u>	<u>1,518,256</u>

No diluted loss per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

9. INVESTMENT PROPERTIES

	Completed properties <i>HK\$'000</i>	Properties interest under construction <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	437,590	86,483	524,073
Impairment loss	–	(84,467)	(84,467)
Exchange realignment	<u>(28,327)</u>	<u>(2,016)</u>	<u>(30,343)</u>
At 31 December 2016	409,263	–	409,263
Decrease in fair value recognised in profit or loss	(579)	–	(579)
Exchange realignment	<u>30,932</u>	<u>–</u>	<u>30,932</u>
At 31 December 2017	<u>439,616</u>	<u>–</u>	<u>439,616</u>

The investment properties represent the Group's interest held under an operating lease on a property project based on a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") entered into by 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a subsidiary of the Company, and 珠江電影製片有限公司 ("Pearl River Film Production"), a limited liability company established in the PRC and a state-owned enterprise, to redevelop 珠影文化產業園 ("Pearl River Film Cultural Park").

Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Cultural Park, in return for predetermined monthly payments from Guangdong Cultural Park for a term up to 31 December 2045. Guangdong Cultural Park is responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Cultural Park has to return all properties to Pearl River Film Production.

The Pearl River Film Cultural Park is located at No. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC and the present land use right is owned by Pearl River Film Production. After the redevelopment, the whole Pearl River Film Cultural Park project will have a commercial area, a cultural entertainment area and a film production and development area, which will be held for investment purpose. As at 31 December 2017, Phase I of the Pearl River Film Cultural Park was completed and included as completed properties as further described below.

The properties interest under construction represent Phase II of the Pearl River Film Cultural Park which is to be developed as an entertainment and film production and development area and is stated at cost, which mainly includes capitalised lease expenses and construction costs, less impairment as the fair value could not be reliably measured as at 1 January 2016. The original period during which construction was to be completed in accordance with the Framework Agreement has expired. Pearl River Film Production has initiated legal proceedings against Guangdong Cultural Park in 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") in respect of an alleged breach of the Framework Agreement governing the lease and reconstruction of the related land (the "Alleged Breach") and compensation of damages. Guangdong Cultural Park denied Pearl River Film Production's accusations and the responsibility of the Alleged Breach and filed a counterclaim against Pearl River Film Production in Guangzhou Intermediate People's Court in May 2016 to demand Pearl River Film Production to continue executing the Framework Agreement and compensation of damages (please refer to note 15 for details).

Guangdong Cultural Park has received the civil judgment issued on 11 October 2016 by Guangzhou Intermediate People's Court (the "First Civil Judgment"), which declared that the Framework Agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 (equivalent to approximately HK\$3,172,000) and Pearl River Film Production, the landlord of the Pearl River Film Cultural Park, is entitled to keep the construction deposit of RMB20,000,000 (equivalent to approximately HK\$23,310,000) paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed.

In November 2016, Guangdong Cultural Park lodged an appeal with the Guangzhou Intermediate People's Court requesting for an order that the First Civil Judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs (the "Appeal").

During the year ended 31 December 2016, in light of the First Civil Judgment, the Group recognised an impairment loss on properties interest under construction and wrote off the construction deposit in respect of the Pearl River Film Cultural Park which amounted to approximately HK\$84,467,000 and HK\$23,310,000, respectively.

The first court hearing of the Appeal was conducted on 30 March 2017. Subsequent to the first court hearing of the Appeal, both of the Plaintiff's and Guangdong Cultural Park's lawyers had further submitted supplementary documents as requested by Higher People's Court of Guangdong Province of the PRC (中國廣東省高級人民法院) ("Guangdong Higher People's Court").

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

The management of the Company and Guangdong Cultural Park (the "Management") is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these further actions to be carried out by the Management (the "Further Actions"), the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

The completed properties represent Phase I of the Pearl River Film Cultural Park which is a prime shopping mall and are stated at the fair value as at 31 December 2017 and 2016. The fair value of the Group's investment properties as at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited ("Asset Appraisal"), independent qualified professional valuer not connected to the Group.

Guangdong Cultural Park continues to operate the completed properties. Therefore, for the completed properties and its related rental business representing Phase I of the Pearl River Film Cultural Park, the Group has continued to account for these assets as investment properties which are stated at their fair value as at 31 December 2017 of approximately HK\$439,616,000 (2016: HK\$409,263,000) and record the rentals receivable from lessees as the Group's revenue of approximately HK\$46,704,000 (2016: HK\$44,052,000) for the year then ended, on the assumption that the legal contractual right to receive the rental income from the lessees and the rental payable for the property leasing right to Pearl River Film Production will remain unchanged and the terms and conditions of the Framework Agreement governing Phase I of the Pearl River Film Cultural Park will continue to be enforceable.

The fair value was determined based on the income approach by capitalising the rental income with due allowance for reversionary income potential and taking into consideration the rental payable for the property leasing right to Pearl River Film Production with the assumptions as described above and the allocation basis of the operating lease payments between Phase I and Phase II of Pearl River Film Cultural Park in the future years would remain the same as if the Framework Agreement is executing continuously.

The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Guangzhou and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Key inputs used in valuing the investment properties include discount rate which ranges from 6.6% to 7.1% (2016: 6.5% to 7%) or risk premium of 3.5% (2016: 3.5%) and market rental which ranges from RMB47 to RMB525 (2016: RMB44 to RMB500) per square metre per month or land yield rate of 5% (2016: 5%). An increase in the discount rate or risk premium would result in a decrease in fair value measurement of the investment properties and vice versa. An increase in the market rental or land yield rate would result in an increase in fair value measurement of the investment properties, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Level 3	Fair value
	HK\$'000	as at
		31 December
		2017
		HK\$'000
Pearl River Film Cultural Park Phase I	<u>439,616</u>	<u>439,616</u>
		Fair value
		as at
		31 December
	Level 3	2016
	HK\$'000	HK\$'000
Pearl River Film Cultural Park Phase I	<u>409,263</u>	<u>409,263</u>

There was no transfer between different levels during the year.

10. RESTRICTED BANK DEPOSIT

Guangzhou Intermediate People's Court granted an order to preserve the bank deposit of Guangdong Cultural Park and the bank account was frozen on 6 May 2016 pursuant to the legal proceedings against Guangdong Cultural Park in respect of an Alleged Breach (please refer to note 15 for details). The restricted bank deposit is interest free and it has been classified as non-current asset as the ultimate outcome of the related Further Actions cannot be assessed at this stage.

11. TRADE RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	<u>21,179</u>	<u>20,085</u>

Except for rental income receivable from tenants, which is due for settlement upon issue of invoice, the Group allows different credit periods to its trade customers ranging from 30 days to 120 days, depending on the type of products sold or services provided.

The following is an aged analysis at the end of the reporting period of the trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within three months	19,932	17,142
Three to six months	820	645
Over six months	<u>427</u>	<u>2,298</u>
	<u>21,179</u>	<u>20,085</u>

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In addition, the Group will review the repayment history of trade receivables by each customer with reference to the payment terms to determine the recoverability of trade receivables. Trade receivables that are neither past due nor impaired have good credit quality according to their past repayment history.

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK\$1,770,000 (2016: HK\$3,651,000) which are past due at the end of the reporting period for which the Group does not provide for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these receivables.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within three months	523	899
Three to six months	820	645
Over six months	427	2,107
	<u>1,770</u>	<u>3,651</u>

Movements in the allowance for doubtful debts

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
1 January	303	–
Impairment losses recognised on receivables	2,749	316
Amounts recovered during the year	(314)	–
Exchange realignment	113	(13)
	<u>2,851</u>	<u>303</u>
31 December	<u>2,851</u>	<u>303</u>

12. TRADE PAYABLES

The following is an aged analysis at the end of the reporting period of the trade payables presented based on the invoice date:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within three months	757	1,528
Three to twelve months	–	50
Over one year	896	848
	<u>1,653</u>	<u>2,426</u>

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

13. OTHER PAYABLES AND ACCRUALS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Accruals	13,515	17,052
Accrued rental payable and late payment surcharge (<i>note a</i>)	30,798	14,302
Construction cost payables	2,489	2,634
Other tax payables	1,163	1,669
Receipt in advance (<i>note b</i>)	18,007	16,741
Rental deposits from tenants	15,558	14,229
Others	11,095	11,055
	<u>92,625</u>	<u>77,682</u>

Notes:

- (a) As at 31 December 2017, accrued rental payable represents the accrued monthly payments for the property leasing right of the Pearl River Film Cultural Park of approximately HK\$27,530,000 (2016: HK\$11,264,000), which was overdue since March 2016.

In addition, an amount of approximately HK\$3,268,000 (2016: HK\$3,038,000) is related to accrued late payment surcharge for the overdue rentals of the Pearl River Film Cultural Park for the period from 1 October 2015 to 21 March 2016 as imposed by the First Civil Judgment (please refer to note 15 for details).

- (b) In December 2016, a subsidiary of the Company has entered into a memorandum of understanding with an independent third party and received an advance payment of RMB15,000,000. The advance payment is unsecured, non-interest bearing and has no fixed repayment terms. The subsidiary of the Company is negotiating with the independent third party on the terms and conditions for such CG production development projects in Foshan.

14. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 2017	<u>2,400,000,000</u>	<u>24,000</u>
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 2017	<u>1,518,255,540</u>	<u>15,183</u>

15. LITIGATIONS

As at 31 December 2017, the Group has the following litigations:

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. The Plaintiff has demanded to terminate the Framework Agreement and claimed, among others, for compensation of damages in the form of economic loss in the amount of approximately RMB75,779,000 resulting from the Alleged Breach.

On 19 April 2016, pursuant to the application from the Plaintiff, the Guangzhou Intermediate People’s Court granted an order to preserve the bank deposit of Guangdong Cultural Park’s bank account at Industrial and Commercial Bank of China (“Bank Account”). The Bank Account was frozen on 6 May 2016. As at 31 December 2017, the restricted bank deposit amounted to approximately HK\$46,253,000 (2016: HK\$17,797,000).

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

In light of the above legal proceedings, Guangdong Cultural Park denied the Plaintiff’s accusations and the responsibility of the Alleged Breach and filed a counterclaim against the Plaintiff to demand the Plaintiff to continue to execute the Framework Agreement and to compensate Guangdong Cultural Park’s damages in the form of economic loss which is amounted to RMB100,000,000. On 26 May 2016, the Guangzhou Intermediate People’s Court accepted the counterclaim filing by the Guangdong Cultural Park against the Plaintiff. The first hearing of the counterclaim was held on 2 August 2016 and the PRC legal advisors of Guangdong Cultural Park sought a further extension of the settlement negotiations period for one month in respect of both Alleged Breach and the counterclaim.

On 17 October 2016, Guangdong Cultural Park received the First Civil Judgment from the Guangzhou Intermediate People’s Court dated 11 October 2016. According to the First Civil Judgment, the Guangzhou Intermediate People’s Court declared that the Framework Agreement was terminated as of 22 March 2016. The First Civil Judgment also stated that Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 during the period from 1 October 2015 to 21 March 2016 and that Pearl River Film Production is entitled to keep the RMB20,000,000 construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production were dismissed and the counterclaim made by Guangdong Cultural Park was dismissed.

In November 2016, Guangdong Cultural Park lodged an appeal with the Guangzhou Intermediate People’s Court urging for an order that the First Civil Judgment be set aside and that judgment be entered in favour of Guangdong Cultural Park with costs which was accepted by Guangdong Higher People’s Court on 9 February 2017. The first court hearing of the Appeal was conducted on 30 March 2017. Subsequent to the first court hearing of the Appeal, both of the Plaintiff’s and Guangdong Cultural Park’s lawyers had further submitted supplementary documents as requested by Guangdong Higher People’s Court.

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment.

The Management is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these Further Actions, the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

Depending on the ultimate outcome of the Further Actions, there may be significant impacts on multiple elements of the Group's consolidated financial statements. Amongst other impacts, the Group might be required to derecognise the investment properties, derecognise rental income already reflected as revenue and make provisions for compensation in respect of damages and other costs. However, the ultimate outcome of the Further Actions cannot be assessed at this stage.

EXTRACT FROM INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the consolidated financial statements of the Group for the year ended 31 December 2017.

“DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 15 to the consolidated financial statements, according to the framework agreement, the Group has completed properties representing Phase I of 珠影文化產業園 (the “Pearl River Film Cultural Park”) which amounted to HK\$439,616,000 as at 31 December 2017 (2016: HK\$409,263,000) and has properties interest under construction to redevelop Phase II of the Pearl River Film Cultural Park in respect of which the original period during which construction was to be completed in accordance with the framework agreement governing the lease of the related land has expired.

As further disclosed in note 43 to the consolidated financial statements, 珠江電影製片有限公司 (“Pearl River Film Production”) as the plaintiff (the “Plaintiff”) has initiated legal proceedings against 廣東環球數碼創意產業有限公司 (“Guangdong Cultural Park”), a subsidiary of the Company, in respect of an alleged breach of the framework agreement governing the lease and reconstruction of the related land (the “Alleged Breach”). The Plaintiff has claimed for compensation of damages in the form of economic loss resulting from the Alleged Breach and also demanded to terminate the framework agreement. Guangdong Cultural Park has also filed a counterclaim against the Plaintiff to demand the Plaintiff to continue executing the framework agreement and compensate Guangdong Cultural Park’s damages in the form of economic loss.

Guangdong Cultural Park received the civil judgment issued on 11 October 2016 by 中國廣東省廣州市中級人民法院 (the “First Civil Judgment”), which declared that the framework agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 (equivalent to approximately HK\$3,172,000) and Pearl River Film Production, the landlord of the Pearl River Film Cultural Park, is entitled to keep the construction deposit of RMB20,000,000 (equivalent to approximately HK\$23,310,000) paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed.

In November 2016, Guangdong Cultural Park lodged an appeal with 中國廣東省廣州市中級人民法院 requesting for an order that the First Civil Judgment be set aside and that the judgment be entered in favour of Guangdong Cultural Park with costs (the “Appeal”).

During the year ended 31 December 2016, in light of the First Civil Judgment, the Group recognised an impairment loss on properties interest under construction and wrote off the construction deposit in respect of the Pearl River Film Cultural Park which amounted to approximately HK\$84,467,000 and HK\$23,310,000, respectively. Guangdong Cultural Park continues to operate the completed properties. Therefore, for the completed properties and its related rental business representing Phase I of the Pearl River Film Cultural Park, the Group has continued to account for these assets as investment properties which are stated at their fair value as at 31 December 2017 of approximately HK\$439,616,000 (2016: HK\$409,263,000) and record the rentals receivable from lessees as the Group’s revenue for the year then ended of approximately HK\$46,704,000 (2016: HK\$44,052,000), on the assumption that the legal contractual right to receive the rental income from the lessees and the rental payable to Pearl River Film Production will remain unchanged and the terms and conditions of the framework agreement governing Phase I of the Pearl River Film Cultural Park will continue to be enforceable.

The first court hearing of the Appeal was conducted on 30 March 2017. Subsequent to the first court hearing of the Appeal, both of the Plaintiff's and Guangdong Cultural Park's lawyers had further submitted supplementary documents as requested by 中國廣東省高級人民法院 ("Guangdong Higher People's Court").

On 16 March 2018, Guangdong Cultural Park received the civil judgment of Guangdong Higher People's Court dated 31 January 2018, which rejected the Appeal and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

The management of the Company and Guangdong Cultural Park (the "Management") is currently seeking legal advice on the Final Civil Judgment in order to make a proper assessment of the legal implications on the financial position of the Company and Guangdong Cultural Park, and on any other alternative legal courses of action that can be taken by the Management. Concurrently, the Management has initiated negotiation with Pearl River Film Production, with the aim to reach a consensus for Guangdong Cultural Park to continue operating Phase I of the Pearl River Film Cultural Park. However, due to the preliminary nature of these further actions to be carried out by the Management (the "Further Actions"), the Management is unable to assess the likelihood of success and form any conclusion on the final impact of this matter on the Company and Guangdong Cultural Park.

Depending on the ultimate outcome of the Further Actions, there may be significant impacts on multiple elements of the Group's consolidated financial statements. Amongst other impacts, the Group might be required to derecognise the investment properties, derecognise rental income already reflected as revenue and make provisions for compensation in respect of damages and other costs. However, the ultimate outcome of the Further Actions cannot be assessed at this stage. In view of the significant uncertainty relating to the ultimate outcome of the Further Actions and its pervasive impact on the consolidated financial statements, we disclaim our opinion in respect of the year ended 31 December 2017. This also caused us to disclaim our opinion on the consolidated financial statements in respect of the year ended 31 December 2016."

Details of "notes 15 and 43 to the consolidated financial statements" have been included in "notes 9 and 15 to consolidated financial statements" of this announcement respectively.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

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

During 2017, the CG creation and production division mainly focused on the production of the original film and television drama projects. As for international project production services, the number of projects significantly reduced as compared with that of the corresponding period of last year, while there were more cooperation on animated film and television drama projects in China. The division is now actively exploring strategic cooperation in respect of resources within the Chinese animation industry chain; and during the year, we undertook to produce the first print of an animation movie adopted from a renowned comic in China, the planning and development of the first prints of two television animations and part of the intermediate production of animation movies and projects of online animation series. In respect of original film and television drama projects, three animated films are currently in progress, a sequel of a television drama is close to completion and the pre-production planning of several animated films and television dramas have also commenced. "Toy Guardians", a themed animated movie, was screened countrywide in early August of 2017 during the summer holidays and generated box office receipt of approximately RMB31.68 million. The movie was awarded the Animation Script with Best Potentials of the "Golden Monkey King" Award at the 11th China International Cartoon and Animation Festival (第十一屆中國國際動漫節「金猴獎」) in 2015. During the second quarter of 2017, the division participated in the Beijing International Film Festival and the Annecy International Animated Film Festival of France. At the Beijing International Film Festival, the division announced several animated film projects, including the "Happy Little Submarine" and "Smart Shunliu" film series and various works of different genres, which are expected to be completed and screened in the next five years. At the Annecy International Animated Film Festival of France, the division exhibited the above films and received a number of enquiries regarding investment and joint creations. "Happy Little Submarine V: Magic Box of Time", which was screened two years ago, was rescreened during the 1 June International Children's Day 2017 time slot with a box office receipt of over RMB11 million. The film achieved the highest patronage rate among films on the International Children's Day, better than the new imported films from the USA, Japan and India as well as the domestic films that were newly launched around the same time. The sound performance among others strengthened the confidence for the sixth film of the "Happy Little Submarine" series planned to be released in near future.

In order to strengthen the collaboration among the entire production chain including the development of animation movies, co-production investment, promotion and distribution, and brand licensing, the division completed the reform of the creative team during the year, including the establishment of five animation studios, as well as enhanced the professional standards and the competitiveness with regard to the planning and development of original films, the production of high-quality animated films, and the creation of the animated television dramas, so as to enrich the contents of the original animations and increase the value of the creative teams. On the technology aspect, the Group follows the industry trend in making innovative upgrades on the content creation process of animated films and television dramas by actively promoting real-time rendering, and strengthening the research and development in the application technology of augmented reality (AR) and virtual reality (VR). In addition, the division acquired the shares of an associated company in Macau and entered into a Strategic Cooperation Agreement with Macau Academy of Cinematic Arts of Macau University of Science and Technology, in the hope of establishing a comprehensive strategic relationship between the parties in respect of project cooperation and training on animated films and television dramas in the future.

During 2017, the CG creation and production division received several honourable titles and awards, including “2016 Top Ten Outstanding Enterprises in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業二零一六年度十佳優秀企業」), “2016 Top Ten Operators in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業二零一六年度十佳經營者」), “2016 Top Ten Originators in Shenzhen’s Cultural Creative Industry” (「深圳市文化創意產業二零一六年度十佳原創人」), “Outstanding Work in China Golden Rooster and Hundred Flowers Film Festival – the 2nd International Micro Film Exhibition” (「中國金雞百花電影節第二屆國際微電影展映優秀作品」), “3rd Prize of the 30-minute category in the Exhibition of Micro Film about the Core Values of Socialism” (「社會主義核心價值觀主題微電影徵集展示活動三十分鐘類三等優秀作品」), and “Guangdong Provincial Copyright Industrial Demonstration Base” (「廣東省版權興業示範基地」). The television animation, “Smart Shunliu – Eagle Boy” received “Five “One” Project Award” (「五個一工程獎」) in Guangdong Province as well as “Best Animation Series-Bronze Medal” in the 14th China Animation & Comic Competition Golden Dragon Award (第十四屆中國動漫金龍獎「最佳系列動畫獎」銅獎); the movie, “Toy Guardians” received “Jade Monkey Prize – 2017 Top Ten New Animation IP” in China IP Licensing Conference (中國IP產業年會「玉猴獎」二零一七年度十佳新銳動漫IP), Nomination Prize of “Xin Guang Award – Best Animation Movie” in the 6th China Xian International Original Animation and Comics Competition (「新光獎」中國西安第六屆國際原創動漫大賽最佳動畫影院片獎提名獎) and Silver Prize of “Cyber Sousa Award – Best Long Animated Film” at the 10th Xiamen International Animation Festival (第十屆廈門國際動漫節「金海豚」動畫作品大賽最佳影視動畫長片銀獎). The television drama, “Smart Shunliu – Eagle Boy” and the movie, “Toy Guardians” received respectively “Excellent TV Cartoon Award” (「優秀電視動畫片獎」) and “Excellent Animated Film Award” (「優秀動畫電影獎」) in the “Dynamic Golden Sheep” Excellent Work Support Plan in 2017 (二零一七「動感金羊」優秀作品扶持計劃).

Looking ahead, the division will work proactively in the development of original film production, as well as strive to obtain international and domestic project production services. Through the effective utilization of production capacity and human resources, the division is expected to achieve the best overall effectiveness and sustainable development.

CG Training

In 2017, the business team of the CG training division carried out constant attempts in various aspects and started a new round of teaching reform. The focuses were to improve competitiveness in respect of teaching quality, employment recommendation and student services. During the year, the division started to enroll students for professional VR classes. Meanwhile, it commenced the cooperation with the Education College of Jinan University, and enrolled students in two professional areas: Design and Production of Animation and Comics, and Arts Design, as well as continued to maintain good communications with renowned schools in order to seek opportunities for cooperation. During the year, the division entered into placement training agreements with several relevant professional universities and colleges, aiming to cultivate more talents with artistic accomplishments and advanced practical skills. The preliminary result was positive and is reflected through improvement in the employment rate and the basic salary of students. In 2017, competition in the CG training market became more intense. Due to the overall tightening of the student loan policy, the division had to adjust its strategies and strengthened its cooperation with universities and colleges, in an aim to enhance its influence within secondary and higher vocational schools. On the other hand, the division also introduced online webcasting and participated in the teaching of secondary vocational schools, strived to ensure the sustainable development of its business through establishing a good reputation in teaching quality and favourable employment results, and currently striving steadily along this direction. Income of the division for the year was slightly higher than that of last year, and the relevant costs were also under control. Thus the division has basically reached the break-even point. Looking into 2018, the division intends to develop an online education platform and plans to promote the platform to all domestic secondary and higher vocational schools. In addition, the division intends to provide ongoing services for students who have completed the courses by means of lifelong employment recommendations or venture investment cooperation, targeting to develop the training business into a cooperation and innovative platform for CG talents so as to enlarge its market share in the vocational training.

Cultural Park

The Cultural Park division was operated by Guangdong Cultural Park, an indirect non-wholly owned subsidiary of the Company. During 2017, income from rental and management fees of the Cultural Park had remained stable. During the year, the division mainly focused on the core business of shopping malls and endeavored to improve the daily management, and in the areas of investment-seeking, property management, fees collection and security, we strengthened the communications between internal departments, improved the quality of management and increased the efficiency of operation.

On 17 October 2016, Guangdong Cultural Park received a civil judgment from the Guangzhou Intermediate People's Court which included, among others, the Framework Agreement and its Supplemental Agreements entered into between Guangdong Cultural Park and Pearl River Film Production were terminated as of 22 March 2016. Guangdong Cultural Park lodged an appeal (the "Appeal") in November 2016 and the first court hearing of the Appeal was conducted on 30 March 2017 at the Guangdong Higher People's Court. On 16 March 2018, Guangdong Cultural Park received a civil judgment from the Guangdong Higher People's Court, which rejected the Appeal and the decision was upheld. Details in relation to the litigation are set out in the announcements of the Company dated 12 April 2016, 21 October 2016, 16 December 2016 and 20 March 2018, and note 15 to the consolidated financial statements of this announcement. The Company has initiated negotiations with Pearl River Film Production in respect of the terms for continuing operation of the Pearl River Film Cultural Park. In the event that the outcome of the negotiation is not in favour of the division, there will be a material adverse impact on the fair value of the Pearl River Film Cultural Park Phase I as recorded in the consolidated financial statements of the Group and the future revenue of the division.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded a loss attributable to owners of the Company of HK\$29,295,000, representing a 53% decrease in loss as compared with HK\$62,158,000 for last year. For the year of 2016, the Group had a one-off impairment loss on properties interest under construction and a write-off of construction deposit in respect of the Pearl River Film Cultural Park amounting to HK\$107,777,000 in aggregate. The decrease in loss for the year was mainly attributable to the absence of such impairment or write-off. The loss for the year was mainly attributable to (1) a substantial decrease in revenue from contracts for CG creation and production from international animated projects and (2) a loss which resulted from the release of an animated film in August 2017.

Revenue

Revenue for the year ended 31 December 2017 amounted to HK\$133,915,000 (2016: HK\$146,759,000). The decrease was mainly attributable to a substantial decrease in revenue from contracts for CG creation and production. The revenue from contracts for CG creation and production during the year was mainly box office receipt revenue generated from the screening of original animated films. During the year, the Group rescreened “Happy Little Submarine V: Magic Box of Time”, an original animated film, during the second quarter and screened “Toy Guardians”, a new original animated film, in August, which generated box office receipt revenue of HK\$14,276,000 in total for the Group.

Cost of Sales and Gross Profit

Cost of sales for the year ended 31 December 2017 amounted to HK\$90,319,000, representing an increase of HK\$11,989,000 as compared with HK\$78,330,000 for 2016. The increase in the cost of sales was mainly attributable to the recognition of the amortized direct production costs of “Toy Guardians” and provision for impairment for the cost of programmes of one of the original projects during the year, while the Group did not have such costs last year. Meanwhile, the staff costs, production outsourcing fee and depreciation included in the cost of sales of the division decreased as compared with the corresponding period of last year.

Other Income

Other income for the year ended 31 December 2017 amounted to HK\$14,786,000, representing a decrease of HK\$7,794,000 as compared with HK\$22,580,000 for the previous year, which was mainly attributable to the decrease in government grants of HK\$9,822,000.

Distribution Costs and Selling Expenses

Distribution costs and selling expenses for the year ended 31 December 2017 amounted to HK\$22,908,000, representing an increase of HK\$19,096,000 as compared with HK\$3,812,000 for 2016, which was mainly attributable to the marketing expenses incurred for the screening of two original animated films during the year.

Administrative Expenses

Administrative expenses for the year ended 31 December 2017 amounted to HK\$55,357,000 (2016: HK\$65,284,000). Administrative expenses for last year increased due to the closure of training businesses in Shanghai and Guangzhou, and professional service fee was incurred in connection with the litigation relating to the Guangdong Cultural Park. As no such expenses were incurred in 2017, administrative expenses for the year decreased accordingly. Since the first quarter of 2016, administrative expenses have included the rental cost of Phase II of the Pearl River Film Cultural Park. As at the date of this announcement, Guangdong Cultural Park and Pearl River Film Production have not yet reached a final consensus in relation to the future collaboration arrangement of Pearl River Film Cultural Park. Therefore, the Group continued to adopt a prudent approach by recognizing all rental expenses in accordance with the Framework Agreement in profit or loss in the period in which they are incurred, among which, the rental cost allocated to Phase I was recognized in cost of sales, while the rental cost allocated to Phase II was recognized in administrative expenses.

Impairment Loss on Investment Properties

The impairment loss on investment properties for the year ended 31 December 2016 was included in the properties interest under construction of Pearl River Film Cultural Park of the Group. Given that the Guangzhou Intermediate People's Court declared that the Framework Agreement and its supplementary agreement were terminated as of 22 March 2016 as disclosed in note 15 to the consolidated financial statements, as advised by the PRC legal advisor of the Company, after the Framework Agreement and its supplemental agreement were terminated, both parties ceased to have all the rights and obligations thereunder. Accordingly, the Group recorded the impairment loss in respect of the interest of the properties under construction of the Pearl River Film Cultural Park in the previous year.

Other Gains and Losses

Other gains and losses for the year ended 31 December 2017 was HK\$2,432,000 of net losses (2016: HK\$27,138,000). The decrease in net losses was mainly attributable to the write-off of construction deposit of HK\$23,310,000 in respect of the ruling of the Guangzhou Intermediate People's Court and the late payment surcharges to Pearl River Film Production for overdue rental of HK\$3,172,000 for last year, while there were no such losses this year.

Change of Fair Value of Investment Properties

The decrease in the fair value of investment properties for the year ended 31 December 2017 amounted to HK\$579,000 (2016: HK\$Nil). Phase I of the Cultural Park is a completed property, and its fair value as at 31 December 2017 and 2016 were determined by a qualified professional valuer.

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 year ended 31 December 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in the Appendix 15 to the GEM Listing Rules (the "CG Code") during the year ended 31 December 2017 except for a deviation from the code provision A.6.7 of the CG Code.

Under the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders. Prof. Japhet Sebastian Law, an Independent Non-executive Director of the Company, was not able to attend the annual general meeting of the Company held on 26 May 2017 as he was out of Hong Kong.

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 year ended 31 December 2017.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

A meeting of the Audit Committee of the Company was held with the auditor and the management of the Company for, amongst other things, reviewing the final results of the Group for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “Annual General Meeting”) will be held at The Residence, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 18 May 2018 at 10:20 a.m.. The notice of the Annual General Meeting will be separately published in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 14 May 2018 to Friday, 18 May 2018, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for attend and vote at the Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. (H.K. time) on Friday, 11 May 2018.

PUBLICATION OF 2017 FINAL RESULTS AND 2017 ANNUAL REPORT

The 2017 final results announcement of the Company is published on the GEM website (www.hkgem.com) and the Company’s website (www.gdc-world.com). The 2017 annual report of the Company will be dispatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

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

By Order of the Board

Xu Liang

Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the Board comprises Mr. Xu Liang (Chairman and Executive Director), Mr. Chen Zheng (Chief Executive Officer and Executive Director), Mr. Jin Guo Ping (Vice President and Executive Director), Ms. Cheng Xiaoyu (Vice President and Executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon (Independent Non-executive Director), Prof. Japhet Sebastian Law (Independent Non-executive Director) and Mr. Lam Yiu Kin (Independent Non-executive Director).

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.gdc-world.com.