G·D·C
環球數碼

Global Digital Creations Holdings Limited
環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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 2018 with comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000 (Restated)
Continuing operations			
Revenue	*2*		
Goods and services		**62,260**	38,551
Rental		**45,382**	42,211
Total revenue		**107,642**	80,762
Cost of sales and services		**(70,404)**	(75,833)
Gross profit		**37,238**	4,929
Other income		**29,252**	14,653
Distribution costs and selling expenses		**(4,552)**	(22,367)
Administrative expenses		**(41,285)**	(38,414)
Other gains and loss	*4*	**351**	317
Share of results of an associate		**–**	(23)
Profit (loss) before tax		**21,004**	(40,905)
Income tax expense	*5*	**(11,320)**	(535)
Profit (loss) for the year from continuing operations		**9,684**	(41,440)
Discontinued operations			
Loss (profit) for the year from discontinued operations	*6*	**(456,221)**	17,425
Loss for the year	*7*	**(446,537)**	(24,015)
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		**(42,710)**	58,601
Gain on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties		**61,049**	–
Deferred tax on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties		**(15,262)**	–
		3,077	58,601
Item that may be reclassified subsequently to profit or loss:			
Decrease in fair value of available-for-sale investment		**–**	(4,057)
Other comprehensive income for the year		**3,077**	54,544
Total comprehensive (expenses) income for the year		**(443,460)**	30,529

	NOTE	**2018**	2017
		HK$'000	*HK$'000*
			(Restated)
Profit (loss) for the year attributable to owners of the Company:			
– from continuing operations		**9,549**	(41,368)
– from discontinued operations		**(310,090)**	12,073
		(300,541)	(29,295)
Profit (loss) for the year attributable to non-controlling interests:			
– from continuing operations		**135**	(72)
– from discontinued operations		**(146,131)**	5,352
		(145,996)	5,280
		(446,537)	(24,015)
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(294,792)**	23,606
Non-controlling interests		**(148,668)**	6,923
		(443,460)	30,529
		HK cents	*HK cents*
(Loss) earnings per share	*9*		
From continuing and discontinued operations			
Basic		**(19.79)**	(1.93)
From continuing operations			
Basic		**0.63**	(2.72)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** ***HK$'000***	2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**5,831**	200,373
Investment properties	*10*	**236,237**	439,616
Prepaid lease payments		**–**	5,071
Interest in an associate		**–**	–
Restricted bank deposit	*11*	**–**	46,253
		242,068	691,313
Current assets			
Programmes		**–**	8,341
Productions work in progress		**5,207**	6,403
Trade receivables	*12*	**8,631**	21,179
Other receivables and deposits		**4,058**	6,152
Amount due from an associate		**1,185**	995
Prepaid lease payments		**–**	132
Structured deposits		**–**	1,686
Bank balances and cash		**273,133**	294,687
		292,214	339,575
Current liabilities			
Advances from customers		**893**	5,184
Trade payables	*13*	**3**	1,653
Other payables and accruals	*14*	**185,940**	92,625
Tax liabilities		**12,478**	9,224
Contract liabilities	*15*	**5,295**	–
Deferred income		**2,521**	2,443
		207,130	111,129
Net current assets		**85,084**	228,446
Total assets less current liabilities		**327,152**	919,759

	NOTE	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred income		**–**	2,657
Deferred tax liabilities		**16,317**	41,347
		16,317	44,004
Net assets		**310,835**	875,755
Capital and reserves			
Share capital	*16*	**15,183**	15,183
Reserves		**419,238**	835,490
Equity attributable to owners of the Company		**434,421**	850,673
Non-controlling interests		**(123,586)**	25,082
Total equity		**310,835**	875,755

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company													
	Share capital	**Share premium reserve**	**Capital contribution reserve**	**Contributed surplus reserve**	**Statutory reserve**	**Investment revaluation reserve**	**Property revaluation reserve**	**Exchange reserve**	**Special reserve**	**Dividend distribution 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*	*HK$'000*	*HK$'000*
At 1 January 2017	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
Loss for the year	–	–	–	–	–	–	–	–	–	–	(300,541)	(300,541)	(145,996)	(446,537)
Exchange differences on translation to presentation currency	–	–	–	–	–	–	–	(40,038)	–	–	–	(40,038)	(2,672)	(42,710)
Gain on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties	–	–	–	–	–	–	61,049	–	–	–	–	61,049	–	61,049
Deferred tax on revaluation upon transfer from property, plant and equipment and prepaid lease payments to investment properties	–	–	–	–	–	–	(15,262)	–	–	–	–	(15,262)	–	(15,262)
Other comprehensive income (expenses)	–	–	–	–	–	–	45,787	(40,038)	–	–	–	5,749	(2,672)	3,077
Total comprehensive income (expenses) for the year	–	–	–	–	–	–	45,787	(40,038)	–	–	(300,541)	(294,792)	(148,668)	(443,460)
Transfer to dividend distribution reserve	–	–	–	–	–	–	–	–	–	121,460	(121,460)	–	–	–
Dividends paid *(note 8)*	–	–	–	–	–	–	–	–	–	(121,460)	–	(121,460)	–	(121,460)
Sub-total	15,183	75,856	445	245,881	4,462	–	45,787	(22,385)	(1,209)	–	70,401	434,421	(123,586)	310,835
Transfer to statutory reserve	–	–	–	–	2,173	–	–	–	–	–	(2,173)	–	–	–
At 31 December 2018	15,183	75,856	445	245,881	6,635	–	45,787	(22,385)	(1,209)	–	68,228	434,421	(123,586)	310,835

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

1.1 HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Revenue from computer graphic ("CG") creation and production
- Revenue from television series and movies
- CG and animation training ("CG Training") fee
- Management services fees

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in note 2.

Summary of effects arising from initial application of HKFRS 15

At the date of initial application, 1 January 2018, there is no difference recognised in the opening retained earnings and no comparative information has been restated.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
		(note)	
Current Liabilities			
Advances from customers	5,184	(4,282)	902
Contract liabilities	–	4,282	4,282

Note: As at 1 January 2018, advances from customers of HK$4,282,000 in respect of CG creation and production, CG Training and management services contracts previously included in advances from customers are reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of cash flows for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	**Reclassification**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Current Liabilities			
Advances from customers	893	491	1,384
Amounts due to customers for contract work	–	4,804	4,804
Contract liabilities	5,295	(5,295)	–

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Operating Activities			
Increase (decrease) in advances from customers	39	(3,724)	(3,685)
Increase in contract liabilities	1,262	(1,262)	–
Increase in amounts due to customers for contract work	–	4,986	4,986

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on the opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

1.2 HKFRS 9 *Financial Instruments* ("HKFRS 9")

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39").

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL Model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on internal credit rating.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

The application of HKFRS 9 on 1 January 2018 has no material impact on the consolidated financial statements of the Group with regards to classification and measurement of financial instruments nor recognised additional impairment loss allowance as the amounts involved are not material.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*

[2] *Effective for annual periods beginning on or after a date to be determined*

[3] *Effective for annual periods beginning on or after 1 January 2021*

[4] *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

[5] *Effective for annual periods beginning on or after 1 January 2020*

Except for the new HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS *16 Leases* ("HKFRS 16")

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid payments as investing cash flows in relation to leasehold land for own use and other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$3,945,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$761,000 and refundable rental deposits received of HK$15,197,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* ("HK(IFRIC) – Int 4") and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. REVENUE

A. For the year ended 31 December 2018

Continuing operations

(i) Disaggregation of revenue from contracts with customers and reconciliation of the revenue from continuing operations from contracts with customers with segment revenue

	For the year ended 31 December 2018		
Segments	**CG creation and production**	**Property leasing and building management services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Types of goods or services			
Revenue from CG creation and production	21,652	–	21,652
Revenue from television series and movies	27,660	–	27,660
Management services fee	–	12,948	12,948
Revenue from continuing operations from contracts with customers	49,312	12,948	62,260
Rental income	–	45,382	45,382
Total revenue from continuing operations	49,312	58,330	107,642
Geographical markets			
People's Republic of China ("The PRC", for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan)	45,833	12,948	58,781
Korea	1,751	–	1,751
Hungary	637	–	637
Hong Kong	552	–	552
France	539	–	539
Total revenue from continuing operations from contracts with customers	49,312	12,948	62,260
Timing of revenue recognition			
At a point in time	27,660	–	27,660
Over time	21,652	12,948	34,600
Total revenue from continuing operations from contracts with customers	49,312	12,948	62,260

(ii) Performance obligations for contracts with customers

(a) Revenue from CG creation and production

The Group provides CG creation and production services under contracts with customers. Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from CG creation and production is therefore recognised over time based on the stage of completion of the contract using input method.

The Group's CG creation and production contracts include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 10% to 30% of total contract sum. When the Group receives a deposit before service commences, this will give rise to contract liability at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

(b) Revenue from television series and movies

Revenue from television series or movies is recognised at a point in time when the customer obtains the control of the television series and movies and the Group has present right to payment and collection of the consideration is probable. The normal credit term is 30 to 60 days upon delivery.

(c) Management services fee

The Group provides property management services to tenants. Income is recognised over the contract period when the relevant services are provided by the Group and the tenants simultaneously receive and consume the benefits provided by the Group's performance. The Group typically receives one month management service fee in advance of the beginning of each month.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Revenue from CG creation and production	**Management services fee**
	HK$'000	*HK$'000*
Within one year	41,562	12,974
More than one year but not more than five years	–	21,415
More than five years	–	9,552
	41,562	43,941

B. For the year ended 31 December 2017

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

	2017
	HK$'000
	(Restated)
Revenue from contracts for CG creation and production *(note)*	26,127
Rental and building management service fee income	54,635
	80,762

Note: During the year ended 31 December 2017, an amount of HK$14,276,000 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 Managing Director 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.

In prior year, segment information reported to the CODM was analysed on the basis of the major types of goods or services delivered or provided by the Group's operating divisions: (1) CG creation and production; (2) CG Training; and (3) cultural, entertainment and related commercial property investment ("Cultural Park").

Since Cultural Park and CG Training operations have become discontinued operations during the year ended 31 December 2018 (details as disclosed in note 6), the Group focuses its operations on (1) CG creation and production; and (2) property leasing and building management services. As a result, the segment information is reported to the CODM in current year as two operating divisions: (1) CG creation and production; and (2) property leasing and building management services. Accordingly, the comparative information has been re-presented.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

- CG creation and production – CG creation and production, exhibition of television series and movies

- Property leasing and building management services – property rental income and building management service fee income

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 from continuing operations by operating and reportable segments:

For the year ended 31 December 2018

Continuing operations

	CG creation and production	**Property leasing and building management services**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Revenue	**49,312**	**58,330**	**107,642**
Segment results	**7,921**	**30,595**	**38,516**
Unallocated other income			**994**
Unallocated expenses			**(18,506)**
Profit before tax from continuing operations			**21,004**

For the year ended 31 December 2017 (re-presented)

Continuing operations

	CG creation and production	Property leasing and building management services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Revenue	26,127	54,635	80,762
Segment results	(50,168)	26,717	(23,451)
Unallocated other income			748
Unallocated expenses			(18,202)
Loss before tax from continuing operations			(40,905)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by or loss incurred from each segment without allocation of certain other 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 2018

	CG creation and production	**Property leasing and building management services**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Assets			
Segment assets	**243,258**	**257,297**	**500,555**
Unallocated assets			
– Bank balances and cash			**27,836**
– Others			**1,653**
Assets relating to discontinued operations			**4,238**
Consolidated total assets			**534,282**
Liabilities			
Segment liabilities	**38,265**	**40,074**	**78,339**
Unallocated liabilities			**1,452**
Liabilities relating to discontinued operations			**143,656**
Consolidated total liabilities			**223,447**

At 31 December 2017 (re-presented)

	CG creation and production *HK$'000*	Property leasing and building management services *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	268,065	213,054	481,119
Unallocated assets			
– Bank balances and cash			45,575
– Others			2,193
Assets relating to discontinued operations			502,001
Consolidated total assets			1,030,888
Liabilities			
Segment liabilities	42,145	21,065	63,210
Unallocated liabilities			2,039
Liabilities relating to discontinued operations			89,884
Consolidated total liabilities			155,133

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

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

Other segment information

For the year ended 31 December 2018

Continuing operations

	Amounts included in the measure of segment profit or loss or segment assets				
	CG creation and production	**Property leasing and building management services**	**Segment total**	**Unallocated**	**Consolidated total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Additions to non-current assets *(note)*	**3,113**	**–**	**3,113**	**29**	**3,142**
Depreciation of property, plant and equipment	**1,908**	**13,372**	**15,280**	**568**	**15,848**
Impairment loss on trade receivables, net of reversal	**71**	**–**	**71**	**–**	**71**
Amortisation of prepaid lease payments	**–**	**123**	**123**	**–**	**123**
Interest income	**(7,170)**	**(30)**	**(7,200)**	**(895)**	**(8,095)**
Government grants	**(20,657)**	**–**	**(20,657)**	**–**	**(20,657)**

For the year ended 31 December 2017 (re-presented)

Continuing operations

	Amounts included in the measure of segment profit or loss or segment assets				
	CG creation and production	Property leasing and building management services	Segment total	Unallocated	Consolidated total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(note)*	4,456	–	4,456	30	4,486
Depreciation of property, plant and equipment	2,227	13,575	15,802	586	16,388
Loss on disposal of property, plant and equipment	–	–	–	2	2
Write-down of programmes	11,001	–	11,001	–	11,001
Reversal of impairment loss on trade receivables, net	(314)	–	(314)	–	(314)
Share of results of an associate	23	–	23	–	23
Amortisation of prepaid lease payments	–	127	127	–	127
Interest income	(6,022)	(8)	(6,030)	(748)	(6,778)
Government grants	(7,749)	–	(7,749)	–	(7,749)

Note: Non-current assets exclude those relating to discontinued operations and exclude restricted bank deposit.

Geographical information

The Group's operations are located mainly in the PRC.

The Group's revenue from continuing operations 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)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Re-presented)		(Re-presented)
The PRC	**104,163**	80,089	**240,980**	203,518
Korea	**1,751**	–	**–**	–
Hungary	**637**	–	**–**	–
Hong Kong	**552**	–	**837**	1,382
France	**539**	78	**–**	–
Denmark	**–**	334	**–**	–
USA	**–**	261	**–**	–
	107,642	80,762	**241,817**	204,900

Note: Non-current assets exclude those relating to discontinued operations and exclude restricted bank deposit.

Information about major customers

Revenue from customers of the corresponding years individually contributing over 10% of the Group's revenue are as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Customer A[1]	**23,232**	N/A[2]

[1] *Revenue from CG creation and production business.*

[2] *The corresponding revenue did not contribute over 10% of the total revenue of the Group.*

4. OTHER GAINS AND LOSS

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Impairment loss on trade receivables, net of reversal	**(71)**	314
Loss on disposal of property, plant and equipment	**–**	(2)
Changes in fair value of structured deposits	**–**	5
Others	**422**	–
	351	317

5. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
The income tax expense comprises:		
Current tax:		
Hong Kong Profits Tax *(note (i))*	**–**	–
PRC Enterprise Income Tax ("EIT") *(note (ii))*	**4,310**	12
PRC withholding tax on distributed profits from a PRC subsidiary *(note (iii))*	**6,825**	–
	11,135	12
Deferred taxation	**185**	523
	11,320	535

Notes:

(i) 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.

(ii) 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 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, according to the Circular of the State Administration of Taxation for the EIT 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. For the year ended 31 December 2018, the relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2017: 15% to 25%).

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the year ended 31 December 2018.

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.

(iii) During the year ended 31 December 2018, a PRC subsidiary of the Company has declared a one-off and non-recurring special dividend to the Company and withholding tax of HK$6,825,000 has been paid to the PRC tax bureau. According to the EIT Law and Implementation Regulation of the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise.

In the opinion of the Directors and the directors of the PRC subsidiaries, the PRC subsidiaries have no intention and are not probable to declare dividend in the foreseeable future and deferred taxation has not been provided for in respect of temporary difference attributable to the remaining retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DISCONTINUED OPERATIONS

In prior years, the Group was involved in the Cultural Park operation principally through 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a non-wholly owned subsidiary of the Group and provision of CG Training through 深圳市南山區環球數碼培訓學校, a wholly owned subsidiary of the Group. As a result of the derecognition of the investment properties of Phase I of the 珠影文化產業園 ("Pearl River Film Cultural Park") as set out in note 10, the Cultural Park operation was discontinued with effect from 1 December 2018. In addition, in view of the shrinkage of the business and loss incurred, the CG Training operation was discontinued since October 2018 and the Group has leased the relevant building space to an independent third party to earn rental income.

Accordingly, the results of the Cultural Park operation and CG Training operation for the year ended 31 December 2018 have been separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

The (loss) profit for the period/year from the discontinued operations is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the CG Training and Cultural Park as discontinued operations.

CG Training

	2018	2017
	HK$'000	*HK$'000*
Revenue from services	**4,450**	6,449
Cost of services	**(2,919)**	(3,188)
Other income	**17**	123
Distribution costs and selling expenses	**(457)**	(504)
Administrative expenses	**(1,395)**	(2,088)
(Loss) profit before tax	**(304)**	792
Income tax expense	**–**	(2)
(Loss) profit for the period/year from discontinued operation	**(304)**	790

(Loss) profit for the period/year from discontinued operation has been arrived at after charging (crediting):

	2018	2017
	HK$'000	*HK$'000*
Staff costs:		
– Salaries, wages and other benefits	**3,187**	4,079
– Retirement benefit scheme contributions	**193**	306
Total staff costs	**3,380**	4,385
Depreciation of property, plant and equipment	**92**	129
Interest income	**(14)**	(22)

Cash flows for the period/year:

	2018	2017
	HK$'000	*HK$'000*
Net cash inflow (outflow) from operating activities	**110**	(1,347)
Net cash inflow from investing activities	**14**	22
Net cash inflow (outflow)	**124**	(1,325)

Cultural Park

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Services	**6,748**	7,433
Rental	**34,089**	39,271
Total revenue	**40,837**	46,704
Cost of services	**(9,561)**	(11,298)
Other income	**184**	10
Distribution costs and selling expenses	**(41)**	(37)
Administrative expenses	**(5,534)**	(4,636)
Change in fair value of investment properties	**(2,481)**	(579)
Rental and settlement expenses	**(95,148)**	(10,219)
Other gains and losses	**(10,177)**	(2,749)
Loss on derecognition of investment properties	**(411,412)**	–
(Loss) profit before tax	**(493,333)**	17,196
Income tax credit (expense)	**37,416**	(561)
(Loss) profit for the period/year from discontinued operation	**(455,917)**	16,635

(Loss) profit for the period/year from discontinued operation has been arrived at after charging (crediting):

	2018	2017
	HK$'000	*HK$'000*
Staff costs:		
– Salaries, wages and other benefits	**4,888**	4,810
– Retirement benefit scheme contributions	**689**	661
Total staff costs	**5,577**	5,471
Auditor's remuneration	**758**	75
Depreciation of property, plant and equipment	**185**	224
Impairment loss on trade receivables, net of reversal	**1,276**	2,749
Write-off of effective rent receivables previously recognised in trade receivables (included in "other gains and losses")	**8,901**	–
Interest income	**(184)**	(10)
Minimum lease payments under operating leases	**14,802**	16,167
Gross rental income from investment properties	**(29,113)**	(30,072)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**2,242**	2,463
	(26,871)	(27,609)

Cash flows for the period/year:

	2018	2017
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**76,603**	6,722
Net cash (outflow) inflow from investing activities	**(6)**	10
Net cash outflow from financing activities	**(76,799)**	(9,274)
Net cash outflow	**(202)**	(2,542)

7. PROFIT (LOSS) FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Profit (loss) for the year from continuing operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments:		
– Salaries, wages and other benefits	**64,061**	71,107
– Retirement benefit scheme contributions	**3,978**	4,405
Total staff costs	**68,039**	75,512
Less: amounts included in customers for contract work	**–**	(2,889)
amounts included in contract assets	**(8,422)**	–
amounts included in productions work in progress	**(10,444)**	(22,486)
	49,173	50,137
Write-down of programmes (included in "cost of sales and services")	**–**	11,001
Amortisation of prepaid lease payments	**123**	127
Auditor's remuneration	**1,472**	1,425
Depreciation of property, plant and equipment	**17,347**	17,283
Less: amounts included in contract assets	**(820)**	–
amounts included in productions work in progress	**(679)**	(895)
	15,848	16,388
Exchange gain, net	**(101)**	(82)
Minimum lease payments under operating leases	**2,046**	2,649
Gross rental income from investment properties	**(3,061)**	–
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**185**	–
	(2,876)	–

8. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2018 special dividend of HK$0.08 (2017: HK$Nil) per ordinary share	**121,460**	–

No dividend has been proposed for ordinary shareholders of the Company since the end of the reporting period.

9. (LOSS) EARNINGS PER SHARE

From continuing operations

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

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
(Loss) earnings		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(300,541)**	(29,295)
Less:		
(Loss) profit for the year from discontinued operations	**(310,090)**	12,073
Earnings (loss) for the purposes of basic earnings (loss) per share from continuing operations	**9,549**	(41,368)

	2018	2017
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	**1,518,256**	1,518,256

No diluted (loss) earnings per share for both 2018 and 2017 are presented as there are no potential ordinary shares in issue for both 2018 and 2017.

From continuing and discontinued operations

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

	2018	2017
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic loss per share	**(300,541)**	(29,295)

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

From discontinued operations

Basic loss per share for the discontinued operations is HK20.42 cents per share (2017: HK0.79 cents earnings per share), based on the loss for the year from discontinued operations of HK$310,090,000 (2017: profit for the year of HK$12,073,000) and the denominators detailed above for basic (loss) earnings per share.

10. INVESTMENT PROPERTIES

	Completed properties – Phase I of the Pearl River Film Cultural Park	**Commercial property**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	
FAIR VALUE			
At 1 January 2017	409,263	–	409,263
Change in fair value recognised in profit or loss	(579)	–	(579)
Exchange realignment	30,932	–	30,932
At 31 December 2017	439,616	–	439,616
Transfer from property, plant and equipment and prepaid lease payments	–	233,314	233,314
Change in fair value recognised in profit or loss	(2,481)	–	(2,481)
Loss on derecognition of investment properties	(411,412)	–	(411,412)
Exchange realignment	(25,723)	2,923	(22,800)
At 31 December 2018	–	236,237	236,237

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	Level 3		**Fair value**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Phase I of the Pearl River Film Cultural Park	**–**	439,616	**–**	439,616
Commercial property located in the PRC	**236,237**	–	**236,237**	–
	236,237	439,616	**236,237**	439,616

There was no transfer between different levels during the year.

All of the Group's property interests held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at 31 December 2018 and 2017 have been arrived at on the basis of valuations carried out by Asset Appraisal Limited ("Asset Appraisal"), an independent qualified professional valuer not connected with the Group. Asset Appraisal is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience.

As at 31 December 2018, the fair value of the commercial property was determined based on the income approach by capitalising the rental income derived from the existing tenancies with due allowance for reversionary income potential and taking into account of the contractual terms and conditions. Key inputs used in valuing the commercial property include discount rate of 10.4% and average rental of Renminbi ("RMB") 120 per square meter per month. An increase in the discount rate would result in a decrease in fair value of the investment properties and vice versa. An increase in the average rental would result in an increase in fair value of the investment properties, and vice versa.

As at 31 December 2017, the fair value of Phase I of the Pearl River Film Cultural Park was determined based on the income approach by capitalising the rental income derived from the existing tenancies with due allowance for reversionary income potential and taking into consideration the rental payable for the property leasing right to 珠江電影製片有限公司 ("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 the Pearl River Film Cultural Park in the future years would remain the same as if the Framework Agreement (as defined in note 10a) is executing continuously. Key inputs used in valuing Phase I of the Pearl River Film Cultural Park include discount rate which ranges from 6.6% to 7.1% or risk premium of 3.5% and market rental which ranges from RMB47 to RMB525 per square meter per month or land yield rate of 5%. An increase in the discount rate or risk premium would result in a decrease in fair value 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 of the investment properties, and vice versa.

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 the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Notes:

(a) 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 Guangdong Cultural Park, a non-wholly-owned subsidiary of the Company and Pearl River Film Production, a limited liability company established in the PRC and a state-owned enterprise, to redevelop the 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 rental 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 as the fair value cannot be reliably measured as at 1 January 2016. The amount has been fully written off in 2016. The original period during which construction was to be completed in accordance with the Framework Agreement has expired.

On 11 April 2016, 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 governing the lease and reconstruction of the related land (the "Alleged Breach").

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 RMB2,722,000 (equivalent to 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 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.

On 16 March 2018, Guangdong Cultural Park received the civil judgment of 中國廣東省高級人民法院 ("Guangdong Higher People's Court") dated 31 January 2018, which rejected the appeal lodged by Guangdong Cultural Park 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").

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

In August 2018, the Group has submitted a proposal to 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. No final agreement has been reached between the Group and Pearl River Film Production regarding the proposal.

In September 2018, the corresponding appeal period for the Final Civil Judgement issued by Guangdong Higher People's Court dated 31 January 2018 was lapsed.

At the end of November 2018, Pearl River Film Production has issued a formal demand letter to Guangdong Cultural Park which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and Pearl River Film Production has even attempted to take possession of the Pearl River Film Cultural Park without the consent of the Group.

Guangdong Cultural Park has continued to account for Phase I of the Pearl River Film Cultural Park as investment properties until 30 November 2018 and record the rentals receivable from lessees as the Group's revenue until 30 November 2018, on the basis that the legal contractual right to receive the rental income from the lessees and the rental payable to Pearl River Film Production would remain unchanged and the terms and conditions of the Framework Agreement governing Phase I of the Pearl River Film Cultural Park would continue to be enforceable.

Upon the lapse of the appeal period for the Final Civil Judgment and the recent actions taken by Pearl River Film Production, on 1 December 2018, the Group decided to derecognise the Phase I of the Pearl River Film Cultural Park as investment properties and recognised a loss on derecognition of HK$411,412,000 on investment properties. The Group has also ceased recognising all revenue derived from the Phase I of the Pearl River Film Cultural Park from 1 December 2018. For the year ended 31 December 2018, the Group has made a provision for the accrued rental and settlement payables of HK$95,148,000. As a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Pearl River Film Cultural Park operation was discontinued with effect from 1 December 2018. Accordingly, the results of the Pearl River Film Cultural Park operation for the year ended 31 December 2018 are separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

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

(b) As the self-occupied portion of the property has become an insignificant portion, the entire property (including building, the relevant leasehold improvements and plant and machinery) with total carrying value of HK$167,507,000 and the entire prepaid lease payments with carrying value of HK$4,758,000 were transferred to investment property on 1 December 2018 and is measured using the fair value model. The fair value of the entire property (including building, the relevant leasehold improvements and plant and machinery) and the entire prepaid lease payments at the date of transfer was HK$233,314,000 in aggregate, resulting in recognition of surplus on revaluation of HK$61,049,000 in other comprehensive income and accumulated in property revaluation reserve.

11. 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 10a for details). The restricted bank deposit is interest free. In April 2018, Guangdong Cultural Park has settled the outstanding late payment surcharges for the overdue rental during the period from 1 October 2015 to 21 March 2016 and Guangzhou Intermediate People's Court has implemented the First Civil Judgment and released the frozen bank account.

12. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables		
– goods and services	**3,796**	6,637
– rental	**8,838**	17,393
Less: Impairment loss	**(4,003)**	(2,851)
	8,631	21,179

Except for rental 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 of the trade receivables, net of allowance for doubtful debts, presented based on the invoice date.

	2018	2017
	HK$'000	*HK$'000*
Less than 90 days	**8,129**	19,932
91-180 days	**502**	820
More than 180 days	**–**	427
	8,631	21,179

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.

As at 31 December 2018, included in the Group's trade receivables balance is debtors with aggregate carrying amount of HK$1,101,000 which is past due as at the reporting date. Out of the past due balances, HK$502,000 has been past due 90 days or more and is not considered as in default based on good repayment records for those customers and their continuous businesses with the Group. The aged analysis is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables were debtors with an aggregate carrying amount of HK$1,770,000 which was past due at the end of the reporting period for which the Group did not provide for impairment loss as the Directors assessed that the balances would be recovered. The Group did not hold any collateral over these receivables.

13. 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:

	2018	2017
	HK$'000	*HK$'000*
Within three months	**3**	757
Over one year	**–**	896
	3	1,653

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.

14. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Accruals	**15,304**	13,515
Accrued rental and settlement payable and late payment surcharge *(note a)*	**128,800**	30,798
Construction cost payables	**2,354**	2,489
Other tax payables	**424**	1,163
Receipt in advance *(note b)*	**17,084**	18,007
Rental deposits from tenants	**15,197**	15,558
Others	**6,777**	11,095
	185,940	92,625

Notes:

(a) As at 31 December 2017, accrued rental payable represented the accrued monthly payments for the property leasing right of the Pearl River Film Cultural Park of HK$27,530,000, which was overdue since March 2016. The Group has revised the estimation basis of accrued rental and settlement payables and further provided HK$95,148,000 during the year ended 31 December 2018. As at 31 December 2018, accrued rental and settlement payables represents the rental receipt derived from Phase I of the Pearl River Film Cultural Park for the period from 22 March 2016 to 31 December 2018, which amounted to HK$120,954,000, and the related interest accrual using the prevailing People's Bank of China Renminbi Lending Rate, which amounted to HK$7,846,000.

In addition, the accrued late payment surcharge for the overdue rental of the Pearl River Film Cultural Park for the period from 1 October 2015 to 21 March 2016 as imposed by the First Civil Judgement (please refer to note 10a for details), which amounted to HK$3,268,000, has been fully settled in April 2018.

(b) In December 2016, a subsidiary of the Company has entered into a memorandum of understanding with Brilliant Link International Limited ("Brilliant Link"), 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.

On 17 December 2018, 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") and Foshan Global Digital Media Technology Co., Ltd.*（佛山環球數碼媒體科技有限公司）("Foshan GDM"), both indirect wholly-owned subsidiaries of the Company, entered into a cooperation agreement (the "Cooperation Agreement") with Foshan Xincai Property Development Co., Ltd.*（佛山信財置業開發有限公司）("Foshan Xincai") and Brilliant Link, both independent third parties. Pursuant to the Cooperation Agreement, (a) Foshan Xincai agreed to contribute a property located in Foshan to Foshan GDM as capital contribution in exchange of 10% equity interest in Foshan GDM; and (b) Brilliant Link agreed to contribute cash in the amount of RMB26,000,000 in aggregate to Foshan GDM in exchange of 5% equity interest in Foshan GDM. The full amount of the advance payment will form part of the cash consideration payable by Brilliant Link.

Details of the above are set out in announcements of the Company dated 17 December 2018 and 25 January 2019. The transactions with Foshan Xincai and Brilliant Link are not yet completed as at the date of this announcement.

* *The English name is for identification purpose only*

15. CONTRACT LIABILITIES

The following is an analysis of the Group's contract liabilities:

	As at 31 December 2018 HK$'000	As at 1 January 2018* HK$'000
Advance from CG customers	**4,804**	1,868
Management service fee in advance from customers	**491**	648
Receipt in advance from CG Training students	**–**	1,766
	5,295	4,282

* *The amounts in this column are after the adjustments from the application of HKFRS 15.*

The contract liabilities at 1 January 2018 were fully recognised as revenue in the current year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– **Revenue from CG creation and production**

Contract liability is recognised by the Group for the portion of fees that the Group collected from the customers in relation to performance obligations that have not been satisfied.

– **Management service fee**

When the Group receives deposits from tenant, this will give rise to contract liability. Revenues is recognised when the management services are provided and the tenant simultaneously receives and consumes the benefits provided by the Group's performance.

– **CG Training fee**

When the Group receives a deposit before the commencement of CG Training course, this will give rise to contract liability. Revenue is recognised when the relevant services are provided and the student simultaneously receives and consumes the benefits provided by the Group's performance. The Group typically receives a 100% deposit before the CG Training course begins. CG Training operation was discontinued since October 2018 as a result of the abandonment of CG Training business. Details as disclosed in note 6.

16. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	2,400,000,000	24,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 2018	1,518,255,540	15,183

17. LITIGATION

The litigations related to the Alleged Breach of the Pearl River Film Cultural Park is resolved during the year end 31 December 2018. Details are set out in note 10a in this announcement.

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 2018.

"QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As disclosed in note 16 to the consolidated financial statements, the Group has completed properties representing Phase I of 珠影文化產業園 (the "Pearl River Film Cultural Park") which was fully derecognised during the year ended 31 December 2018 (2017: HK$439,616,000). The Pearl River Film Cultural Park was accounted for as investment properties as at 31 December 2017.

On 11 April 2016, 珠江電影製片有限公司 ("Pearl River Film Production") as the plaintiff (the "Plaintiff") 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 Pearl River Film Cultural Park (the "Alleged Breach").

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 RMB2,722,000 (equivalent to HK$3,172,000).

On 16 March 2018, Guangdong Cultural Park received the civil judgment of 中國廣東省高級人民法院 ("Guangdong Higher People's Court") dated 31 January 2018, which rejected the appeal lodged by Guangdong Cultural Park 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"). With respect to the consolidated financial statements of the Group for the year ended 31 December 2017, the management of the Company and Guangdong Cultural Park (the "Management") was 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. These circumstances caused us to disclaim our opinion on the consolidated financial statements in respect of the year ended 31 December 2017 due to the potential significant impact of these actions on the consolidated financial statements of the Group.

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

In September 2018, the corresponding appeal period for the Final Civil Judgement issued by Guangdong Higher People's Court dated 31 January 2018 lapsed. At the end of November 2018, Pearl River Film Production issued a formal demand letter to Guangdong Cultural Park which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and Pearl River Film Production also attempted to take possession of the Pearl River Film Cultural Park without the consent of the Group.

Guangdong Cultural Park continued to account for Phase I of the Pearl River Film Cultural Park as investment properties until 30 November 2018 and record the rentals receivable from lessees as the Group's revenue until 30 November 2018, 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 would remain unchanged and the terms and conditions of the framework agreement governing Phase I of the Pearl River Film Cultural Park would continue to be enforceable.

Upon the lapse of the appeal period for the Final Civil Judgment and the recent actions taken by Pearl River Film Production, on 1 December 2018, the Group decided to derecognise Phase I of the Pearl River Film Cultural Park as investment properties and recognised a loss on derecognition of investment properties of Phase I of the Pearl River Film Cultural Park, which amounted to HK$411,412,000. The Group has also ceased recognising all revenue derived from the Phase I of the Pearl River Film Cultural Park from 1 December 2018. For the year ended 31 December 2018, the Group has made a provision for the accrued rental and settlement payables which amounted to HK$95,148,000. As a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Pearl River Film Cultural Park operation was discontinued with effect from 1 December 2018. Accordingly, the results of the Pearl River Film Cultural Park operation for the year ended 31 December 2018 have been separately presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

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

The Group has made a provision for the accrued rental and settlement payables based on management's best estimate on the final settlement amount. In view of the fact that Guangdong Cultural Park and Pearl River Film Production have not yet reached an agreement on the settlement arrangements, we were unable to obtain sufficient appropriate audit evidence about (i) the accrued rental and settlement payables amounted to HK$128,800,000 as at 31 December 2018 as disclosed in note 29 to the consolidated financial statements as other payables and accruals; and (ii) the (loss) profit for the period/year from the discontinued operations – the Pearl River Film Cultural Park of HK$455,917,000 as disclosed in note 11 to the consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that such amounts and the relevant disclosures related to the Pearl River Film Cultural Park were free from material misstatement. Any adjustment found to be necessary would affect the net assets as at 31 December 2018 and 2017 and the financial performance of the Group for the year then ended.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion."

Details of "notes 11, 16 and 29 to the consolidated financial statements" have been included in "notes 6, 10 and 14 to consolidated financial statements" of this announcement respectively.

SPECIAL AND FINAL DIVIDENDS

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

Apart from the above, the Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production

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

In 2018, the animated film production projects undertaken by our CG creation and production division mainly came from China, including part of the intermediate production of several animated films and television series as well as one web animation. Our CG creation and production division also started pre-production work of an animated television series. For original film and television series projects, "Happy Little Submarine: 20000 Leagues under the Sea", the sixth film of the "Happy Little Submarine" series, was screened in China during the "1 June" International Children's Day 2018 time slot with box office receipt of over RMB72,000,000. The creation for the seventh film of the same series has also been activated by the division thereafter. Meanwhile, the second episode of the television animation, "Smart Shunliu – Eagle Boy", which was shown on video websites and domestic television channels, recorded satisfactory hit rate and television ratings. The series have cumulatively completed two animations with 104 episodes in total which began broadcasting on CCTV Channel 1 of CCTV in October and was ranked in the top 3 in terms of the same time-slot viewership among all television stations in the PRC. In addition, the division has co-invested and co-produced with a sizable PRC company that is experienced in intellectual toys for a new original sci-fi animation series, "星際車神", which is now in production. We look forward to capitalizing on the synergies generated from the strategic alliance between the two parties.

On 17 December 2018, the division and a wholly-owned subsidiary located in Foshan entered into a cooperation agreement with investors, pursuant to which, the parties shall cooperate to construct a research and development, production and manufacturing base for the digital animation industry in Foshan, namely, the Foshan Digital Animation Industry Base*（佛山數碼動漫產業基地）. With new technical processes and new computer hardware, the parties have preliminarily established an production team to undertake part of the production work of animated films and television series. Subsequently, we shall establish a production team of suitable size in accordance with the development needs of our creation and production business in order to enhance our competitive advantages in the industry.

In 2018, our original projects won multiple awards for the division. The television animation "Smart Shunliu – Eagle Boy" which received the "Best Animated Works"(「最佳動漫作品」) award in the 3rd Animation Award of the Chinese Culture and Arts Government Awards (中國文化藝術政府獎第三屆動漫獎), was also recommended by the State Administration of Radio, Film and Television of China as "Excellent Domestic Television Animation for the Fourth Quarter of 2017"(「二零一七年第四季度優秀國產電視動畫片」) and was selected as one of the nominated works for the 25th Television Arts "Starlight Award"(第25屆電視文藝「星光獎」) in the television animation category of the China Radio, Film and Television Awards – Radio and TV Programme Award (中國廣播影視大獎 • 廣播電視節目獎) as well as "2018 Top 10 Animation IP with the most commercial value"(「二零一八年度最具商業價值十大動漫IP」) in the 3rd "Jade Monkey Award"(「玉猴獎」) in the China IP Industry Conference. The television animation "Smart Shunliu – Eagle Boy 2" received the "Excellent TV Cartoon" award in the 10th "Dynamic Golden Sheep" Excellent Work Support Plan (第十屆「動感金羊」優秀作品扶持計畫優秀電視動畫片), the Finalist Award of the "Cyber Sousa Award" at the 11th Xiamen International Animation Festival (第十一屆廈門國際動漫節「金海豚」動漫作品大賽入圍獎) and the "Copyright Application Award" in the 7th "Shenzhen Copyright Golden Prize"(第七屆「深圳版權金獎－版權運用獎」). The short film "過草地" received the First Class Award in the category of animated narrative short film (動畫敘事短片一等獎) at the "Me and My Motherland – Guangdong 2018 Socialist Core Values Animated Short Film Creation Activity"(「我和我的祖國－廣東2018年度社會主義核心價值觀動畫短片創作活動」). The animated movie "Happy Little Submarine" series was shortlisted in the "Outstanding Cartoon Character Design Category"(「卡通形象設計類優秀作品」) in the 2018 Marketing Conference of Cartoon Characters in China (二零一八中國卡通形象營銷大會), and "Happy Little Submarine: 20000 Leagues under the Sea" received "Jury Special Award"(「評委會特別獎」) in "Xinguang Award" China Xi'an 7th International Original Animation Competition (「新光獎」中國西安第七屆國際原創動漫大賽) and the "Copyright Application Award" in the 7th "Shenzhen Copyright Golden Prize"(第七屆「深圳版權金獎－版權運用獎」). The animation movie "Toy Guardians" was nominated for "Best Arts in Animation Movies"(「動畫電影類最佳美術獎」) of the 1st AniSpark Domestic Original Animation Gala of Sanwen Entertainment (三文娛第一屆AniSpark國產原創動畫盛典) and "Best Animated Movie"(「最佳動畫長片獎」) of the 15th China Animation & Comic Competition Golden Dragon Award (第15屆中國動漫金龍獎) respectively. In addition, a wholly-owned subsidiary of the Company, 深圳市環球數碼影視文化有限公司, received the "Excellent Creative Team Award"(「創作團隊優秀獎」) in the 10th "Dynamic Golden Sheep" Excellent Work Support Plan (第十屆「動感金羊」優秀作品扶持計畫優秀電視動畫片); while the division was awarded with a plate – "CCTV Animation Principal Production Base"(「央視動畫中期製作基地」).

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

CG Training

Revenue from the CG training division for 2018 was lower than expected and the corresponding period last year. Although the Company has actively adjusted its business over the past few years, the number of students enrolled continued to decline. Given that the prospects for the animation training industry was not optimistic, the management decided to shrink the business starting from the third quarter by terminating marketing and promotional activities, reducing marketing personnel, retaining the necessary teachers for completing the services of the original classes and maintaining the operation of online education platform. The CG training division was merged into the CG creation and production division in the fourth quarter of 2018. In the future, it will mainly provide relevant training to internal personnel to cultivate animation production talents.

Cultural Park

On 16 March 2018, Guangdong Cultural Park received a civil judgment (the "Higher Court Civil Judgment") from the Guangdong Higher People's Court, which rejected the appeal lodged in November 2016 and upheld the original decision. Details of the 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 notes 10a and 17 of the consolidated financial statements in this announcement.

According to the Higher Court Civil Judgment, the Guangdong Higher People's Court rejected Guangdong Cultural Park's appeal and the decision (the "First Civil Judgment") of the Guangzhou Intermediate People's Court was upheld, which included, among others, the judgment that the Framework Agreement entered into between Guangdong Cultural Park and Pearl River Film Production as at 28 March 2007 should be terminated as of 22 March 2016; Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of approximately RMB2,722,000 (equivalent to approximately HK$3,172,000) during the period from 1 October 2015 to 21 March 2016 and that Pearl River Film Production is entitled to keep the RMB20,000,000 (equivalent to approximately HK$23,310,000) construction deposit paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed. The Guangzhou Intermediate People's Court implemented the judgment at the end of April 2018 and subsequently released the frozen bank account. In light of the First Civil Judgment, the Group recognized an impairment loss on properties interest under construction of approximately HK$84,467,000, a write-off of construction deposit of approximately HK$23,310,000 and late payment surcharges for rental of approximately HK$3,172,000 during the year ended 31 December 2016.

Following the receipt of the Higher Court Civil Judgment, the management met with the representatives of Pearl River Film Production for preliminary discussion on 27 March 2018. During the meeting, the representatives of Pearl River Film Production indicated that they expected Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park, i.e. the undeveloped land, as soon as possible, and had further discussion on the future arrangement of Phase I of the Pearl River Film Cultural Park, i.e. the completed properties. After the meeting, the management and all shareholders of Guangdong Cultural Park met with the PRC legal advisor on 3 April 2018 for legal advice. The PRC legal advisor recommended negotiating the overall arrangement of the Pearl River Film Cultural Park (both Phase I and Phase II) as a package, which all shareholders agreed and accepted. The management met with the representatives of Pearl River Film Production for the second time on 17 April 2018. At the meeting, the management presented its proposal of discussion as a package to the representatives of Pearl River Film Production and indicated its hope to reach a consensus as soon as possible in respect of continuing operation of Phase I of the Pearl River Film Cultural Park. However, Pearl River Film Production still insisted Guangdong Cultural Park to return Phase II of the Pearl River Film Cultural Park first. After several discussions, the division returned a portion of the Pearl River Film Cultural Park, which had been used as parking space, to Pearl River Film Production in June 2018 and continued to negotiate with Pearl River Film Production for the overall arrangement of Phase I and Phase II of the Pearl River Film Cultural Park to express the sincerity of the Company for continuing operation of Phase I of the Pearl River Film Cultural Park. On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from the legal representatives of Pearl River Film Production demanding the delivery of the relevant properties of Pearl River Film Cultural Park and claimed for compensation of related occupation fees and economic loss totaling to approximately RMB143,076,000 (equivalent to approximately HK$169,521,000). Guangdong Cultural Park immediately sought the advice from the PRC legal advisor and requested to meet and negotiate with the representatives of Pearl River Film Production. Since then, Guangdong Cultural Park has conducted a series of negotiations with Pearl River Film Production, including the submission of written proposals to Pearl River Film Production. However, in the absence of any agreement, Pearl River Film Production attempted to seize Phase I of the Pearl River Film Cultural Park without the consent of the Group at the end of November 2018. After considering the attitude of Pearl River Film Production and uncertainties of the operational terms of Phase I of the Pearl River Film Cultural Park by the management, the Board, therefore, decided to derecognize Pearl River Film Cultural Park as an investment property of the Group in its accounts, and reflected changes in other relevant accounting, including derecognizing all revenue generated from Pearl River Film Cultural Park from 1 December 2018. In March 2019, Guangdong Cultural Park received a demand letter dated 7 March 2019 from Pearl River Film Production, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park and claimed for related occupation fee. Notwithstanding any of the above decision, the Board would like to emphasize that it did not represent the Group's intention to give up any of its rights and legitimate interests in Pearl River Film Cultural Park. Guangdong Cultural Park remains committed to continue the negotiation with Pearl River Film Production and finalize the operating terms of Phase I of the Pearl River Film Cultural Park or reasonable investment compensation in order to protect its rights and ligitimate interests in Pearl River Film Cultural Park.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group generally recorded a loss attributable to owners of the Company of HK$300,541,000, as compared with the loss attributable to owners of the Company of HK$29,295,000 for the corresponding period of last year. Profit attributable to owners of the Company from the continuing operations for the year ended 31 December 2018 was HK$9,549,000, representing an increase of HK$50,917,000 in profit as compared with a loss of HK$41,368,000 for the corresponding period of last year.

Given that (i) business performance of the CG training division has not been desirable over the past few years and it has been reduced significantly in the fourth quarter of the year to provide only in-house on-the-job training; (ii) the Cultural Park had derecognised the completed properties – Phase I of the Pearl River Film Cultural Park, the businesses of the CG training and the Cultural Park were classified as discontinued operations during the period under review. Loss from the discontinued operations for the year ended 31 December 2018 amounted to HK$456,221,000, as compared with a profit of HK$17,425,000 for the corresponding period of last year. Such loss was mainly attributable to derecognition of the Pearl River Film Cultural Park as the Group's investment property of HK$375,494,000, derecognition of all revenue of the Group from the Cultural Park since 1 December 2018, and provision of HK$85,581,000 for the income received from the date of termination of the Framework Agreement to 30 November 2018 and its related expenses. The aforesaid derecognition of the investment property was non-cash in nature and would not have a significant impact on cash flow.

Revenue from the continuing operations for the year ended 31 December 2018 amounted to HK$107,642,000, representing an increase of HK$26,880,000 as compared with HK$80,762,000 for the corresponding period in 2017, of which the Group's revenue from CG production and original projects increased by HK$13,965,000 and HK$9,220,000 respectively as compared with the corresponding period of last year.

Cost of sales from the continuing operations for the year ended 31 December 2018 amounted to HK$70,404,000, representing a decrease of HK$5,429,000 as compared with HK$75,833,000 for the corresponding period in 2017, which was mainly attributable to the decrease in the cost of original projects. In addition, following the shrinkage of the training business in Shenzhen, the building space originally occupied by the training business was successfully leased out at the beginning of December 2018. As the proportion of the self-use space of the headquarters building decreased significantly, the building was reclassified as an investment property and accounted for at fair value, and provision for relevant depreciation or amortization of prepaid lease payments were no longer required ever since.

Other income from the continuing operations for the year ended 31 December 2018 amounted to HK$29,252,000, representing a significant increase of HK$14,599,000 as compared with HK$14,653,000 for the corresponding period in 2017, which was mainly attributable to the increase in government grants and interest income of HK$12,908,000 and HK$1,317,000 respectively during the year.

Distribution costs and selling expenses for the year ended 31 December 2018 amounted to HK$4,552,000, representing a decrease of HK$17,815,000 as compared with HK$22,367,000 for the corresponding period in 2017, which was mainly attributable to the significant decrease of promotion and distribution expenses for original projects during the year.

Administrative expenses for the year ended 31 December 2018 amounted to HK$41,285,000 (2017: HK$38,414,000), which was mainly attributable to the increase in staff costs.

Other gains and losses for the year ended 31 December 2018 was net gains of HK$351,000, mainly representing written off of other payable.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had bank balances and cash of HK$273,133,000 (2017: HK$294,687,000), which were mainly denominated in Renminbi, United States dollars and Hong Kong dollars. There was no outstanding structured deposits as at 31 December 2018 (2017: HK$1,686,000). In addition, as the Group's restricted bank deposits were released in the second quarter of the year, the Group had no restricted bank deposits as at 31 December 2018 (2017: HK$46,253,000).

As at 31 December 2018 and 31 December 2017, the Group had no borrowings or overdrafts. The Group's current ratio was 1.41 (2017: 3.1), which was calculated based on current assets of HK$292,214,000 and current liabilities of HK$207,130,000. Such decrease was mainly attributable to the additional provision made by the Group as at the end of the year for the income received by the Cultural Park from the date of termination of the Framework Agreement up to 30 November 2018.

The Group adheres to prudent financial management, and currently has sufficient cash on hand and bank balances. The management believes that the Group's financial resources are sufficient to meet its future working capital requirements.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK$434,421,000 as at 31 December 2018 (2017: HK$850,673,000). The decrease was attributable to loss attributable to owners of the Company for the year ended 31 December 2018 of HK$300,541,000, payment of a special dividend of HK$121,460,000 and exchange differences of HK$40,038,000 on translation of financial statements attributable to owners of the Company from functional currency to presentation currency, partially offset by the increase in investment property revaluation reserve of HK$45,787,000.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment for the year ended 31 December 2018.

CHARGE ON ASSETS

As at 31 December 2018, there were no charges on any of the Group's assets for loans and bank facilities.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi and incurs costs mainly in Renminbi and Hong Kong dollars. The Directors believe that the Group's operating cashflow and liquidity are not subject to significant foreign exchange risks, and thus has not implemented any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposure. As at 31 December 2018, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Save for the litigation disclosed in notes 10a and 17 of the consolidated financial statements in this announcement, the Group had no significant contingent liabilities as at 31 December 2018.

EMPLOYEES

As at 31 December 2018, the Group employed 287 (2017: 397) full time employees (other than employees of the Group's associates). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

For the year ended 31 December 2018, neither the Company nor its subsidiaries had paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individuals.

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 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2018, except for a deviation from the code provision A.2.1 of the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this code provision in that Ms. Cheng Xiaoyu, being the Chairman of the Board and an Executive Director, has been appointed as the Managing Director of the Company, who also performs the functions of the chief executive officer of the Company, since 11 December 2018. The Board believes that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being Independent Non-executive Directors.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The Company's Audit Committee (the "Audit Committee") together with the auditor and the management of the Company have reviewed the final results of the Group for the year ended 31 December 2018.

MANAGEMENT'S AND AUDIT COMMITTEE'S VIEWS ON AUDITOR'S QUALIFIED OPINION

As disclosed in the Independent Auditor's Report, the auditor of the Company expressed a qualified opinion on the Group's consolidated financial statements for the year ended 31 December 2018 in relation to (i) the accrued rental and settlement payables amounted to HK$128,800,000 and (ii) the (loss) profit for the period/year from the discontinued operation – the Pearl River Film Cultural Park of HK$455,917,000 in view of the fact that Guangdong Cultural Park and Pearl River Film Production have not yet agreed on the settlement arrangements (the "Audit Qualification") as of such date. Please refer to the section headed "Basis for Qualified Opinion" of the Extract from Independent Auditor's Report of this announcement for details of the Audit Qualification.

The Audit Committee noted from the management of the Company that Guangdong Cultural Park has been negotiating with Pearl River Film Production since the termination of Framework Agreement as of 22 March 2016, pursuant to the First Civil Judgment which did not provide definitive guidance as to treatment of Phase I of the Pearl River Film Cultural Park, being the completed properties. As disclosed in the Company's announcement dated 10 December 2018, in light of the recent actions taken by Pearl River Film Production including its attempt to take possession of the Pearl River Film Culture Park without our consent at the end of November 2018, the Board decided to derecognize the Pearl River Film Cultural Park as an investment property of the Group and cease recognizing all revenue derived from the Pearl River Film Cultural Park starting from 1 December 2018. Notwithstanding such decision, Guangdong Cultural Park remains committed to continue negotiation with Pearl River Film Production with a view to reach satisfactory settlement terms with Pearl River Film Production which can properly protect its rights and legitimate interests on the Pearl River Film Cultural Park.

The Audit Committee has critically reviewed the management's position on the major judgmental areas and concluded that it has no disagreement with the management's position on the Audit Qualification.

The Audit Committee has discussed with the Company's auditor and noted their view that the qualified opinion could only be removed upon Guangdong Cultural Park and Pearl River Film Production having reached an agreement on the settlement arrangements. To address the Audit Qualification and with a view to removing the audit qualifications for the consolidated financial statements of the Group for the year ending 31 December 2019, the Company will continue to use their best effort to negotiate with Pearl River Film Production in order for the most favourable settlement arrangements to come into place for the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") will be held at The Function Room, 2nd Floor, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong on Thursday, 23 May 2019 at 10:30 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 Friday, 17 May 2019 to Thursday, 23 May 2019, 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 Thursday, 16 May 2019.

PUBLICATION OF 2018 FINAL RESULTS AND 2018 ANNUAL REPORT

The 2018 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 2018 annual report of the Company will be despatched 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 clients for their utmost support to the Group. I would also like take this opportunity to extend my gratitude and appreciations to management members and all of the staff for their hard work and dedication throughout the year.

By Order of the Board
Cheng Xiaoyu
Chairman and Managing Director

Hong Kong, 22 March 2019

As at the date of this announcement, the Board comprises Ms. Cheng Xiaoyu (Chairman and Managing Director), Mr. Jin Guo Ping (Deputy Managing Director) and Mr. Xu Liang as Executive Directors; Mr. Chen Zheng (Deputy Chairman) as Non-executive Director; Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Lam Yiu Kin as Independent Non-executive Directors.

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.