ANNUAL REPORT 2008

GDC HOLDINGS

環 球 數 碼 創 意 控 股 有 限 公 司*

Global Digital Creations Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 8271

** For identification purpose only*


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This report, for which the directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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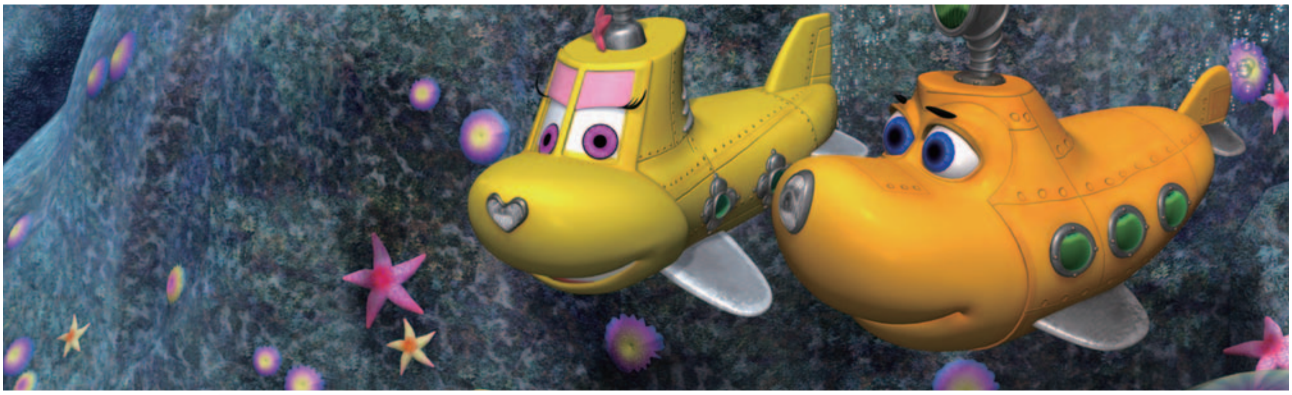
MISSION STATEMENT



WE ARE THE PIONEERS IN A NEW TECHNOLOGY AND INDUSTRY.

THERE ARE MANY PROBLEMS AND DIFFICULTIES IN OUR WAY.

WE WILL CONQUER AND OVERCOME.

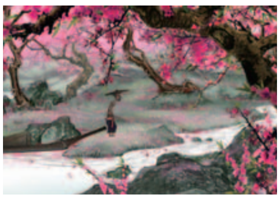
WE BELIEVE OUR FUTURE WILL REST ON THE PEOPLE THAT WE TRAIN AND NURTURE TODAY. TOGETHER WORKING AS A TEAM, WE WILL BUILD AND LEAD THE DIGITAL CONTENT DEVELOPMENT INDUSTRY IN ASIA.

AWARDS AND CITATIONS

JUNE, 2008

"Ode to Summer", a short animation production from GDC, has been incorporated into "The Animation Bible", a classic on animations, for its unique artistic innovation and novel technique of expression.

AUGUST, 2008



"The Legend of Shangri-la" received a gold award for the China region at the SIGGRAPH conference renowned as "CG Oscar", and will enter for the China region the CG Contest for SIGGRAPH (International) 2009 to be held in the US.

SEPTEMBER, 2008

GDC had the pleasure to receive two honours for being rated as a culture industrial base in both Guangdong Province and Shenzhen Municipality.

GDC was commended by the Beijing Organizing Committee for the Olympic Games for its distinguished contributions to the preparations for the opening and closing ceremonies of the 29th Beijing Olympic and Paralympic.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Cao Zhong *(Chairman)*
Chen Zheng *(Managing Director/ Chief Executive Officer)*
Jin Guo Ping *(Deputy Managing Director/ Deputy Chief Executive Officer)*
Lu Yi, Gloria *(Deputy Managing Director/ Deputy Chief Executive Officer)*
Leung Shun Sang, Tony *(Non-executive Director)*
Kwong Che Keung, Gordon *(Independent Non-executive Director)*
Hui Hung, Stephen *(Independent Non-executive Director)*
Japhet Sebastian Law *(Independent Non-executive Director)*

EXECUTIVE COMMITTEE

Cao Zhong *(Chairman)*
Chen Zheng
Jin Guo Ping
Lu Yi, Gloria

AUDIT COMMITTEE

Kwong Che Keung, Gordon *(Chairman)*
Hui Hung, Stephen
Japhet Sebastian Law

NOMINATION COMMITTEE

Cao Zhong *(Chairman)*
Leung Shun Sang, Tony *(Vice Chairman)*
Kwong Che Keung, Gordon
Hui Hung, Stephen
Japhet Sebastian Law

REMUNERATION COMMITTEE

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice Chairman)*
Kwong Che Keung, Gordon
Hui Hung, Stephen
Japhet Sebastian Law

COMPLIANCE OFFICER

Chen Zheng

COMPANY SECRETARY

Cheng Man Ching *FCIS, FCS*

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL REGISTRARS

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Rooms 1101-4, 11th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

8271

WEBSITE

www.gdc-world.com

DIRECTORS' BIOGRAPHIES

Mr. Cao Zhong, aged 49, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Joint Chairman of the Company in February 2005 and is currently the Chairman of the Company. He is also the chairman of each of the Executive Committee and the Nomination Committee of the Company and the vice chairman of the Remuneration Committee of the Company. He was appointed the Vice Chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), in November 2001 and has acted concurrently as the Managing Director of Shougang Grand since February 2006. Mr. Cao was also appointed the Deputy Chairman and General Manager of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the SFO, the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International"), the Chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was appointed an Executive Director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the Chairman of APAC in May 2007. Mr. Cao was appointed a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, in December 2008. He was also appointed an executive director of Fushan International Energy Group Limited ("Fushan") in March 2009 and is currently the Chairman of Fushan. He is also a director of each of Wheeling Holdings Limited and Upper Nice Assets Ltd., both are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Cao acts as the Assistant General Manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and the Chairman of China Shougang International Trade and Engineering Corporation. He has extensive experience in corporate management and operation.

A service contract has been entered into between Mr. Cao and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Cao is entitled to a monthly salary of HK$150,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Cao is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Cao is HK$300,000.

Mr. Chen Zheng, aged 49, engineer and senior economist. He holds a bachelor degree in chemical engineering and a master degree in business administration. Mr. Chen was appointed an Executive Director of the Company in February 2005 and is currently the Managing Director of the Company. He is also a member of the Executive Committee of the Company. Mr. Chen was also appointed an Executive Director of Shougang Grand in January 2004 and was designated as the Managing Director of Operations of Shougang Grand in February 2006. He is also a director of Upper Nice Assets Ltd., a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen has extensive experience in investing business and corporate management.

A service contract has been entered into between Mr. Chen and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$130,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Chen is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Chen is HK$130,000.

Mr. Jin Guo Ping, aged 50, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed the Vice President and Executive Director of the Company in February 2006 and is currently the Deputy Managing Director of the Company. He is also a member of the Executive Committee of the Company. Mr. Jin is an ordinary committee member of China Animation Association. He is also a visiting professor in Animation School of Beijing Film Academy, a counselor of each of Animation School of Jinlin College of the Arts and Korea Animation Producers Association. Mr. Jin was a director of Shanghai Animation Film Studio, the chairman of Shanghai Yilimei Animation Company Limited, the chairman of Shanghai Cartoon Cultural Developing Co. Ltd., a publisher of "Cartoon King" Magazine, the vice president of Shanghai Film Group Corporation, the vice chairman of Shanghai United Circuit Co., Ltd, a director of Shanghai Paradise Corporation Ltd, the general manager of Shanghai Animation Film & TV (Group) Corporation and the assistant director of broadcasting of Shanghai Television. Mr. Jin has extensive experience in animation and film industries.

A service contract has been entered into between Mr. Jin and a wholly-owned subsidiary of the Company for a term of two years commencing on 1 January 2009. Under the service contract, Mr. Jin is entitled to a monthly salary of HK$100,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Jin is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Jin is HK$90,000.

Ms. Lu Yi, Gloria, aged 38, a chartered financial analyst. Ms. Lu was appointed the Deputy Managing Director of the Company in September 2007. She is also a member of the Executive Committee of the Company. Ms. Lu was a senior management of Deutsche Securities Asia Limited, a wholly-owned subsidiary of Deutsche Bank AG.

A service contract has been entered into between Ms. Lu and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Ms. Lu is entitled to a monthly salary of HK$120,000 and a housing allowance of a maximum amount of HK$100,000 per month, which are determined with reference to her experience and duties as well as the then prevailing market conditions. Ms. Lu is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as her individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Ms. Lu is HK$60,000.

Mr. Leung Shun Sang, Tony, aged 66. Mr. Leung was appointed a Non-executive Director of the Company in December 2005. He is also the chairman of the Remuneration Committee of the Company and the vice chairman of the Nomination Committee of the Company. Mr. Leung was appointed a Non-executive Director of Shougang Grand in July 1995. He is a Director of each of Shougang International, Shougang Technology and Shougang Century. He was also appointed a non-executive director of Fushan in March 2009. Mr. Leung is the managing director of CEF Group. He holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management.

An engagement letter has been entered into with Mr. Leung for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Leung will receive a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time pursuant to the authority given by the shareholders of the Company (the "Shareholders"). For the financial year ending 31 December 2009, the director's fee for Mr. Leung will be HK$190,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. For the financial year ended 31 December 2008, the director's fee for Mr. Leung is HK$190,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Mr. Kwong Che Keung, Gordon, aged 59. Mr. Kwong was appointed an Independent Non-executive Director of the Company in April 2003. He is also the chairman of the Audit Committee of the Company and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Kwong graduated from the University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was a partner of PriceWaterhouse Hong Kong from 1984 to 1998. He served as a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 1992 to 1997 during which time he also acted as convener of both the Compliance Committee and the Listing Committee of the Stock Exchange. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies, including COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, OP Financial Investments Limited (formerly known as Concepta Investments Limited), China Chengtong Development Group Limited, Ping An Insurance (Group) Company of China, Ltd., Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited and CITIC 1616 Holdings Limited.

An engagement letter has been entered into with Mr. Kwong for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Kwong will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Kwong will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Kwong. For the financial year ended 31 December 2008, the director's fee of Mr. Kwong is HK$240,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Kwong's experience and duties as well as the then prevailing market conditions.

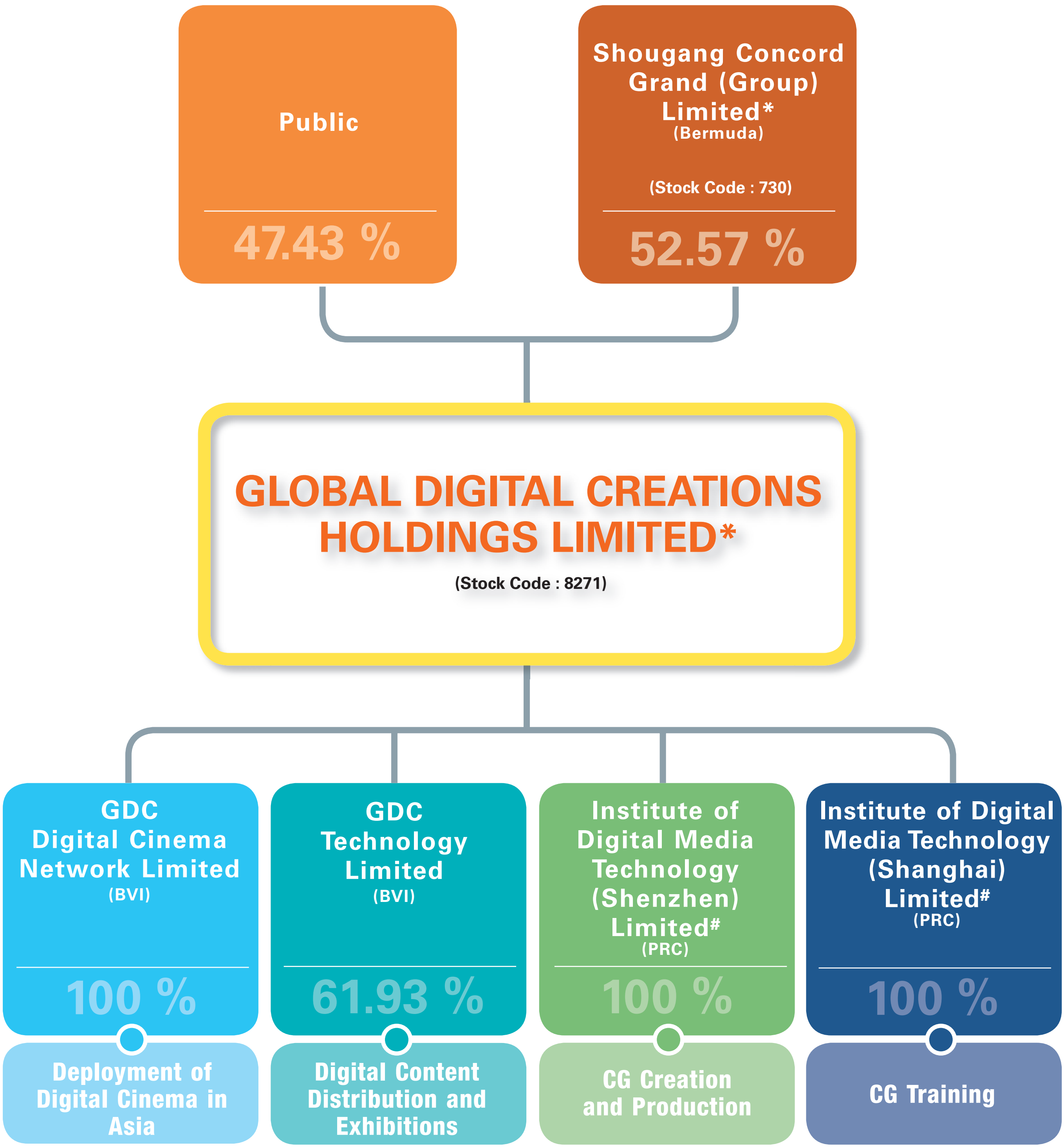
Mr. Hui Hung, Stephen, aged 51. Mr. Hui was appointed an Independent Non-executive Director of the Company in February 2006. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He was also an Independent Non-executive Director of each of Shougang Century and Shougang Grand. Mr. Hui is the managing director of Federal Glory International Limited and Eastern Gain International Limited. Prior to joining the Company, he had been the manager of the China Division of the Far East Regional Office of the Bank of Credit and Commerce International in Hong Kong and an independent non-executive director of each of The Quaypoint Corporation Limited and Haywood Investments Limited (now known as Mastermind Capital Limited), both are listed companies in Hong Kong. Mr. Hui graduated from Middlesex University in the United Kingdom in 1982 with a bachelor of arts degree in economics and geography and has been conferred a master of business administration by the Barrington University of the United States in 2001. He has extensive experience in banking, investment and financing investment in Mainland China.

An engagement letter has been entered into with Mr. Hui for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Hui will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Hui will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Hui. For the financial year ended 31 December 2008, the director's fee of Mr. Hui is HK$240,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Hui's experience and duties as well as the then prevailing market conditions.

Dr. Japhet Sebastian Law, aged 57. Dr. Law was appointed an Independent Non-executive Director of the Company in September 2008. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Dr. Law graduated from the University of Texas at Austin with doctor of philosophy in mechanical/industrial engineering in 1976. He joined the Chinese University of Hong Kong in 1986 and is currently a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of the Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Dr. Law was the director of Operations Research at the Cullen College of Engineering and director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as consultants for various corporations in Hong Kong and overseas. Dr. Law is active in public services and serves as member of the Provisional Regional Council of the Hong Kong SAR Government and varies other committees. He is active on the boards of profit, non-profit, and charitable organizations in Hong Kong and overseas. From July 2003 to February 2006, Dr. Law had acted as an Independent Non-executive Director of the Company. He currently serves as independent non-executive directors of Tianjin Port Development Holdings Limited and Beijing Capital International Airport Co., Ltd.

An engagement letter has been entered into with Dr. Law for a term commencing from 1 September 2008 to 31 December 2010. Under the engagement letter, Dr. Law is entitled to receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Dr. Law will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Dr. Law. For the financial year ended 31 December 2008, the director's fee of Dr. Law is HK$80,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Dr. Law's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE



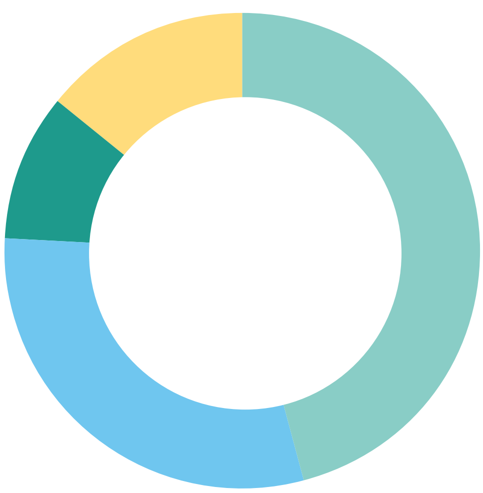
* Listed company
# For identification

FINANCIAL HIGHLIGHTS

REVENUE BY PRINCIPAL ACTIVITY FOR THE YEAR 2008

- **50%** Digital content distribution and exhibitions
- **38%** CG creation and production
- **12%** CG training courses

REVENUE BY GEOGRAPHICAL LOCATION FOR THE YEAR 2008



- **46%** The People's Republic of China, for the purpose of this report, does not include Hong Kong, Macau and Taiwan
- **30%** The United States
- **10%** Europe
- **14%** Others


环球数码IDMT
系列讲座

CHAIRMAN'S STATEMENT

Year 2008 saw the global market conditions have entered the most severe downturn for several decades. The worldwide economic environment deteriorated progressively and the financial services sectors experiencing extraordinary fluctuation, due largely to the turbulence in the United States sub-prime mortgage market that began in late 2007. We, as an active player in the digital content development industry, were not immune from this turmoil. Lack of funding, shortage of liquidity and pressure on capital made banks and financial institutions under very great pressure, this credit crunch weaken our customers' funding availability or to engage in funding transactions on favourable terms, which resulted in delay in orders, especially in digital content distribution and exhibitions division and computer graphic ("CG") creation and production division.

The performance of digital content distribution and exhibitions division depends on two most important factors, namely Virtual Print Fees ("VPF") financing and direct orders from exhibitors. Because of this fierce financial crisis, the key VPF deployment entities in the United States and Europe and global exhibitors have postponed their plans for digitalisation. Fortunately, by the coming release of more than ten 3D titles in the year 2009 and foresee thereafter, demand for digital 3D cinema equipment increases, it is expected the deployment of digital cinemas worldwide, including ourselves for the Asian market, has yet to begin.

As for our cooperation with China Film Group Corporation ("CFGC") for the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), after having further considered that additional huge amount of capital input required to continue this project, the unfavourable conditions in present credit market and the loss from the digital cinema equipment since its deployment, we considered that it would be better to terminate the project with CFGC. Consequently, we disposed those installed equipment to them at proceeds of approximately RMB223.8 million (equivalent to approximately HK$254.2 million). This great decision, in return, strengthens our cash-backing for the Group's further development in its existing business divisions and our announced media advertising project in the PRC which is expected to sustain a healthy and stable growth rate and generate strong cash inflow in the coming years.

In CG creation and production division, due to several clients postponed the commencement of their production plans, revenue and segment result for this year reduced to approximately HK$45.6 million and HK$5.1 million, respectively, representing a respective decrease of approximately 11% and 71% comparing with that for the year 2007.

Despite the downturn of global economy, this division was able to operate at a profit for the whole year 2008. It was mainly because of the broadened customer base in CG production service worldwide, improvement in cost control and production efficiency, and enhancement in service quality and reliability. Besides, we are highly recognised and achieved "preproved" stage by several leading studios and distributors in Hollywood and Europe. Our progress in CG business is also recognised by the PRC government, two honours of culture industrial bases in both Guangdong Province and Shenzhen Municipality were awarded this year. With existing orders on hand, the production capacity of this division has already been fully occupied until the fourth quarter of the year 2009.

Furthermore, we were actively engaged in co-production deals with worldwide leading studios this year to accumulate more intellectual property asset for upside earning potential. The success of this co-production of our second full feature length CGI film, "Little Happy Submarine", and the related animated television series globally made us obtaining more recognition in the industry. Simultaneously, it boosted up confidence from international production companies and encouraged them to work with us on production, distribution and other businesses. We will continue to develop the original content creation business through different forms, including sole investment and co-production, in order to generate more revenue and deliver better margins.

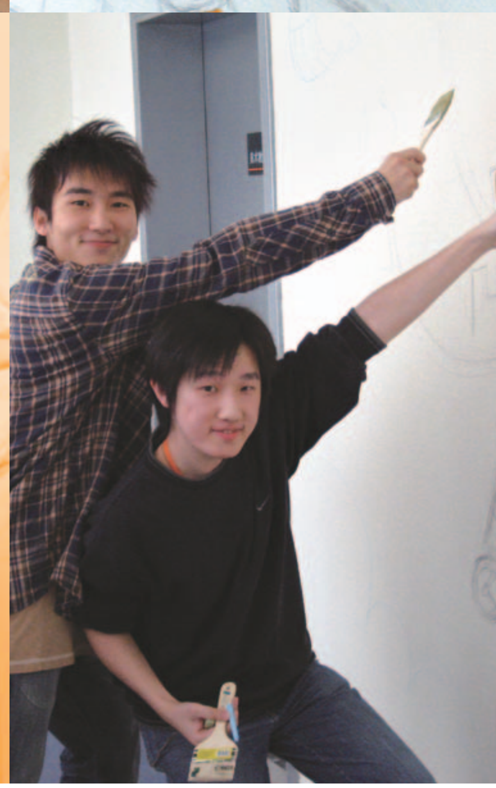
In CG training division, revenue and segment result for this year amounted to approximately HK$14.4 million and HK$2.5 million, which reported an increase of approximately 32% and 26%, respectively, comparing with that for the year 2007. This improvement was mainly resulted from wider and more effective recruitment methods, higher utilisation of training staff on higher return on investment activities, increased enrollment per class and number of long term classes, etc. We maintain our industry reputation as the most comprehensive and most effective CG professional training programs.

This hard time to digital media industry is a challenge, but also an opportunity. At present, we have plenty of cash and healthy operations, we would demonstrate our professional capabilities and dedications in each of our respective positions and the synergetic results were apparent, in order to overcome difficulties. We are confident that the Group is able to recover in the year 2009 and becomes one of the best digital media companies in Asia, as we are benefiting from high growth potential for digital content distribution and exhibitions division and CG creation and production division, with growing income from CG training division.

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

Cao Zhong
Chairman


环球数码与重庆高新区合作备忘录签字仪式



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2008 was approximately HK$120,180,000 when compared with that of approximately HK$246,125,000 for the year 2007, represented a decrease of approximately 51%. The decrease was mainly attributable to decrease in revenue from digital content distribution and exhibitions division and computer graphic ("CG") creation and production division by HK$123,668,000 and HK$5,734,000, respectively.

During the year ended 31 December 2008, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment, share of box office receipts from the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) cooperated by China Film Group Corporation ("CFGC") and the Group (the "PRC Digital Cinema Project") and technical service income, amounted to approximately HK$60,194,000, decreased by approximately 67%. However, excluding the sales of digital cinema equipment for the PRC Digital Cinema Project in exchange for intangible asset for the year 2007 of HK$132,912,000, revenue from this division increased by approximately HK$9,244,000 or approximately 18%. The Group's revenue from CG creation and production division amounted to approximately HK$45,566,000, decreased by approximately 11% comparing with that for the year 2007, as a result of postponement of CG production by several clients during the first half of this year.

Cost of sales for the year ended 31 December 2008 amounted to approximately HK$106,042,000 which, comparing with that of approximately HK$165,544,000 for the year 2007, represented a decrease of approximately 36%.

The Group made a gross profit of approximately HK$14,138,000 for the year ended 31 December 2008, representing a gross profit margin of approximately 12%. Comparing with the gross profit margin of approximately 33% for the year 2007, the decrease was mainly due to inclusion of amortisation of intangible asset of the PRC Digital Cinema Project of approximately HK$28,491,000 in the amount of cost of sales. Excluding the share of box office receipts from the PRC Digital Cinema Project and this amortisation, such adjusted gross profit margin for this year was approximately 32%.

Other income for the year ended 31 December 2008 amounted to approximately HK$3,066,000 (2007: HK$14,413,000), representing a decrease of approximately 79%. The decrease was mainly due to the amount for the year 2007 included an one-off income upon waiver of interest payable on other loan and rental payable amounted to approximately HK$4,156,000 and HK$3,228,000, respectively, and decrease in interest income by approximately HK$4,015,000 during the year.

FINANCIAL OVERVIEW *(Continued)*

Administrative expenses for the year ended 31 December 2008 amounted to approximately HK$60,073,000 (2007: HK$99,878,000), representing a decrease of approximately 40%. However, excluding the recognition of equity-settled share-based payments of approximately HK$57,402,000 for the share options granted during the year 2007, the administrative expenses increased by approximately 41%, as a result of growth in operations of the Group.

Finance costs for the year ended 31 December 2008 amounted to approximately HK$2,428,000 (2007: HK$4,002,000), representing a decrease of approximately 39%. The decrease was mainly attributable to decrease in interest to a fellow subsidiary by approximately HK$2,099,000.

Other expense of approximately HK$22,202,000 (2007: Nil) for the year ended 31 December 2008 represented an one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC.

The discount on acquisition of additional interest in a subsidiary for the year 2007 amounted to approximately HK$1,342,000 represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, over the cost of the subscription of 53,388,178 new shares of GDC Technology at HK$2 per share in November 2007.

Gain on dilution of interest in a subsidiary of approximately HK$40,130,000 for the year 2007 included (i) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007, and (ii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during that year.

Overall, the Group recorded loss of approximately HK$71,688,000 for the year ended 31 December 2008 attributable to equity holders of the Company, when compared with that profit of approximately HK$18,302,000 for the year 2007.

BUSINESS REVIEW AND OUTLOOK

Digital content distribution and exhibitions

Excluding the sales of digital cinema equipment for the PRC Digital Cinema Project in exchange for intangible asset for the year 2007 of HK$132,912,000, revenue from digital content distribution and exhibitions division achieved approximately HK$60,194,000, represented an increase of approximately 18%. This increase was mainly due to orders received for digital 3D cinema equipment during the year from exhibitors in the PRC and rest of Asia for the screening of a Hollywood 3D blockbuster, "Journey to the Center of the Earth". Besides, at least ten 3D titles are planned for release in the year 2009, the demand for digital 3D cinema equipment would continue to increase.

In late September 2008, several Hollywood studios finally signed the long-sought Virtual Print Fees ("VPF") deals with the major exhibitors in the United States for 20,000 digital cinema screens. Together with the new VPF deal signed by a NASDAQ listed company, which is the largest (VPF based) digital cinema deployment entity, with five Hollywood studios for the second phase of deployment of another 10,000 digital cinema screens in the United States, and the VPF deal signed by a leading digital cinema service company in Europe with six Hollywood studios for the deployment of 8,000 digital cinema screens there, it is expected the deployment of digital cinemas has yet to begin.

In anticipation of the imminent digital cinema transition in the United States, the Group signed with the two largest cinema service providers to expand its servicing network throughout the United States. Both of the service providers are industry heavy weight and their support will go a long way to help the Group build a trusted servicing network for its customers in the United States. The Group has also been awarded authorised vendor status by Cinema Buying Group of the United States, a buying program for independent theaters and has over 600 members made up of small to medium-sized independent theaters representing over 8,000 screens in North America. Besides, the Group's digital cinema server has been included in the approved digital equipment list of the largest (VPF based) digital cinema deployment entity for its "Phase Two" deployment program over the next three years.

In Asia, the Group has reached separate non-exclusive agreements with three Hollywood studios for digital cinema deployment across Asia, of which these studios are committed to supply Asian exhibitors with feature film content digitally, as well as to make financial contributions towards the hardware cost of Digital Cinema Initiative ("DCI") compliant digital cinema equipment deployed. This milestone signals the Group's on-going commitment to Asian exhibitors as a trusted partner in digital conversion.

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Digital content distribution and exhibitions *(Continued)*

To capture the potential opportunities, the Group successfully strengthened its production facilities in Shenzhen and Hong Kong in preparation of mass production of its products. The Group also continuously improved its production quality, its manufacturing facility in Shenzhen achieved ISO 9001:2000 certification.

On the other hand, the Group entered into an agreement to make available to a group, which is engaged in operation and sale of advertisement airtime for a television channel of Guangdong Television Station, a loan facility in the maximum principal amount of RMB100 million (equivalent to approximately HK$113.6 million) and acquisition of the exclusive rights and options to subscribe for an aggregate of up to 60% of that group. The Group considered that this provided an opportunity for the Group to extend its business to media advertising in the PRC, which is expected to sustain a healthy and stable growth rate and generate stable cash inflow in the coming years.

For the PRC Digital Cinema Project, after having further considered that additional substantial amount of capital would be needed to continue the project, the prevailing conditions in the credit market and the loss of the digital cinema equipment since its deployment, the Group considered that it would be more appropriate to terminate the cooperation with CFGC and dispose the installed equipment to them. On 9 January 2009, the Group entered into an agreement with CFGC to dispose the equipment for a consideration of approximately RMB223.8 million (equivalent to approximately HK$254.2 million), of which RMB100 million (equivalent to approximately HK$113.6 million) has been received. The net proceeds received and receivable would provide funding for the Group's development in its existing business divisions and the media advertising business in the PRC.

CG creation and production

Due to the slow down of global economy since late 2007, several clients postponed the commencement of their production plans, it resulted in lower revenue for the CG creation and production division during the year. Most of these projects did eventually commenced near the end of second quarter of the year 2008, and despite the global economy downturn, this division was still profitable for the whole year 2008.

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production *(Continued)*

Besides, the Group is actively developing new clients and has secured several projects with some world leading entertainment brands for animated television series and theatrical movies. The Group is also in discussion of co-production opportunities with several large North American and European children's entertainment content development and broadcasting companies. Many existing and prospective clients have expressed the desire for long term and multi-project relationship with the Group based on the demonstrated track record of offering reliable, cost effective, high quality CG production services to international market, the customer base of the Group has already expanded to North America, Europe and Australia. At present, based on orders on hand, the production capacity of this division is already fully occupied up to the fourth quarter of the year 2009.

To deal with the expected growth in orders, the Group established a subsidiary in the city of Chongqing, its staff recruitment and installation of production facilities have been completed. The production capacity there has been formed during the fourth quarter of the year 2008 and is expected to further develop and achieve the same level of CG production as the production in Shenzhen.

Following the success of the Group's second full-length feature CGI film, "Happy Little Submarines", a co-production with a Hollywood leading animation studio, the Group's co-produced animated television series, "Dive Olly Dive" was also released on China Central Television (CCTV) since September 2008. This film and television series generated revenue of over HK$3,000,000 for the year 2008 and received support from the local municipal government on the distribution and promotion. The television series has also been released on popular channels in the United States, France, Germany and Australia, and had received positive audience share and media responses. The success of this co-production globally made the Group won recognition in the industry and increased confidence from international production companies to work with the Group not only limited to production, but also extend to distribution and other business. The Group will actively develop its original content creation business through different forms, including sole investment and co-production, in order to generate revenue from sale of derivatives, distribution and intellectual property sales in addition to the existing CG creation and production revenue.

Furthermore, with the support of the local municipal government, the Group is constructing its headquarters building at Shenzhen High-tech Industrial Park and the construction is scheduled to be completed in the year 2010. Upon completion, the Group will expand its research, development and production centre of its multi-media digital contents and CG business. The Group's production capacity and efficiency will enhance further at that time.

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG training

CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. Through continued improvement in the management system and infrastructure, comprehensive training materials for different categories, including CG animation and games, and open new training courses, the Group maintained a leading position in the CG professional training domain in the PRC. This division recorded steady revenue growth of approximately 32% for the year ended 31 December 2008, comparing with that for the year 2007.

With the encouragement from the PRC government on subcontracting foreign CG projects and the development of domestic CG and game industries, many international well-know companies set up production centres in the PRC, demand for equipped people in this field increased. In addition to the existing training courses on the knowledge of CG production, the Group opens a new professional training programme for the game industry, including comprehensive training materials and case studies, in line with the market needs. The Group also tailors made some advanced courses for several companies in the different kinds of CG animation and game industries during the year to upgrade their employees in accordance with their positions, with an aim to enhance the production capacity of those companies.

Besides, the Group co-operates with several famous high schools in the PRC for "Skill and Qualification" training programme for their students to achieve their aim to have "One Course, Several Certificates" and to train up their practical production skills ready for the employment immediate after graduation.

In addition to the Group's training centres in Shanghai and Shenzhen and direct operation training sites in Chongqing and Wuxi, the Group plans to set up more direct operation training sites to further expand its training network throughout the PRC and increase market shares there. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network, and diversify its revenue stream.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK$72.2 million as at 31 December 2008 (2007: HK$210.4 million) and pledged bank deposits of approximately HK$3.5 million as at 31 December 2008 (2007: HK$7.8 million) which were mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The decrease was mainly from net cash used in operating activities of approximately HK$45.0 million, advance for Guangdong television advertising project, details of which are set out in note 44(a) to the consolidated financial statements, of approximately HK$68.2 million, and investment in an associate of approximately HK$21.1 million.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 31 December 2008, the Group's borrowings amounted to approximately HK$44.8 million, of which were repayable within twelve months from 31 December 2008.

Gearing ratio (calculated as borrowings divided by equity attributable to equity holders of the Company) as at 31 December 2008 was approximately 15% (2007: 14%). As at 31 December 2008, the Group has current ratio of approximately 1.1 (2007: 2.7) based on current assets of approximately HK$130.1 million and current liabilities of approximately HK$121.1 million. The Group's leverage decreased was mainly attributable to loss for the year, and net cash used in operating activities, advance for Guangdong television advertising project and investment in an associate.

CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK$305.0 million as at 31 December 2008 (2007: HK$358.0 million). The decrease was mainly due to loss for the year ended 31 December 2008 attributable to equity holders of the Company of approximately HK$71.7 million, netting off with the exchange differences on translation of foreign operations of approximately HK$18.5 million.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the capital injection to an associate as mentioned in note 22 to the consolidated financial statements, the Group had no material acquisitions, disposals and significant investment during the year ended 31 December 2008.

CHARGE ON ASSETS

As at 31 December 2008, the Group pledged deposits amounted to approximately HK$3.5 million (2007: HK$7.8 million) to banks to secure a purchase of raw materials agreement and a construction agreement entered into with independent third parties. The pledged bank deposits will be released upon the settlement of the relevant agreements.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group mainly earns revenue in United States dollars and Renminbi, and incurs costs in United States dollars, Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2008, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 47 to the consolidated financial statements about litigation proceeding, the Group had no significant contingent liabilities as at 31 December 2008.

EMPLOYEES

As at 31 December 2008, the Group employed 633 (2007: 424) full time employees. The Group remunerated 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 employee of the Group.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") during the financial year ended 31 December 2008.

BOARD OF DIRECTORS

Composition

The Board currently comprises four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

BOARD OF DIRECTORS *(Continued)*

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the bye-laws of the Company ("Bye-laws").

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Attendance records

During the financial year ended 31 December 2008, the Directors have made active contribution to the affairs of the Group and five Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the quarterly results, interim results and annual results of the Group.

BOARD OF DIRECTORS *(Continued)*

Attendance records *(Continued)*

Details of Directors' attendance records in 2008 are as follows:

	Meetings attended/Eligible to attend
Chairman	
Cao Zhong	3/5
Executive Directors	
Chen Zheng	5/5
Jin Guo Ping	5/5
Lu Yi, Gloria	5/5
Non-executive Director	
Leung Shun Sang, Tony	5/5
Independent Non-executive Directors	
Kwong Che Keung, Gordon	5/5
Hui Hung, Stephen	5/5
Japhet Sebastian Law *(appointed on 1 September 2008)*	2/2
Bu Fan Xiao *(resigned on 1 September 2008)*	2/3

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

BOARD OF DIRECTORS *(Continued)*

Appointments and re-election of Directors *(Continued)*

Each Non-executive Directors has entered into a formal engagement letter with the Company for a service period up to 31 December 2010.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the GEM Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Independent Non-executive Directors

Pursuant to Rules 5.05(1) and 5.05(2) of the GEM Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Cao Zhong assumes the role of the Chairman and Mr. Chen Zheng serves as the Managing Director of the Company. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in September 2007 and comprises all Executive Directors of the Company.

BOARD COMMITTEE *(Continued)*

Executive Committee *(Continued)*

As at 31 December 2008, the members of the Executive Committee were as follows:

- Cao Zhong *(Chairman)*
- Chen Zheng
- Jin Guo Ping
- Lu Yi, Gloria

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. During the year, six meetings of the Executive Committee were held.

Audit Committee

An Audit Committee of the Board was established in July 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the quarterly, interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprised three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Kwong Che Keung, Gordon *(Chairman)*	4/4
Hui Hung, Stephen	4/4
Japhet Sebastian Law *(appointed on 1 September 2008)*	1/1
Bu Fan Xiao *(resigned on 1 September 2008)*	3/3

BOARD COMMITTEE *(Continued)*

Audit Committee *(Continued)*

During the year, four meetings of the Audit Committee were held for, amongst other things, reviewing:

- the final results of the Group for the financial year ended 31 December 2007;
- the quarterly results of the Group for the three months ended 31 March 2008;
- the interim results of the Group for the six months ended 30 June 2008; and
- the quarterly results of the Group for the nine months ended 30 September 2008.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Nomination Committee

A Nomination Committee of the Board was established in August 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

BOARD COMMITTEE *(Continued)*

Nomination Committee *(Continued)*

The members of the Nomination Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Cao Zhong *(Chairman)*	1/1
Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Kwong Che Keung, Gordon	1/1
Hui Hung, Stephen	1/1
Japhet Sebastian Law *(appointed on 1 September 2008)*	0/0
Bu Fan Xiao *(resigned on 1 September 2008)*	1/1

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for considering the nomination of Dr. Japhet Sebastian Law as an Independent Non-executive Director of the Company.

Remuneration Committee

A Remuneration Committee of the Board was established in July 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

BOARD COMMITTEE *(Continued)*

Remuneration Committee *(Continued)*

The members of the Remuneration Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	2/2
Cao Zhong *(Vice Chairman)*	2/2
Kwong Che Keung, Gordon	2/2
Hui Hung, Stephen	2/2
Japhet Sebastian Law *(appointed on 1 September 2008)*	1/1
Bu Fan Xiao *(resigned on 1 September 2008)*	1/1

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, two meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration and terms of service contracts of the Executive Directors of the Company;
- determining the bonuses of the Executive Directors of the Company for the year 2008; and
- making recommendations to the Board on the directors' fees of the Non-executive Directors of the Company for the year 2009.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

INTERNAL CONTROL *(Continued)*

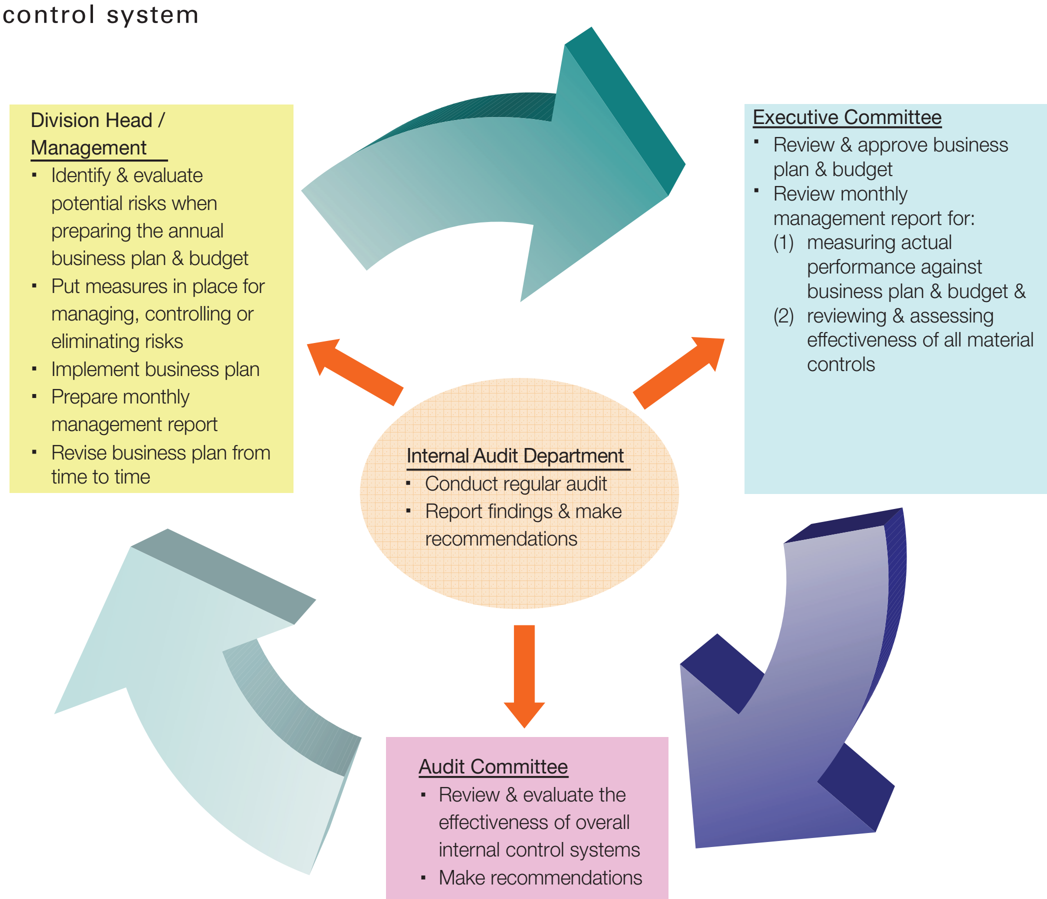
The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

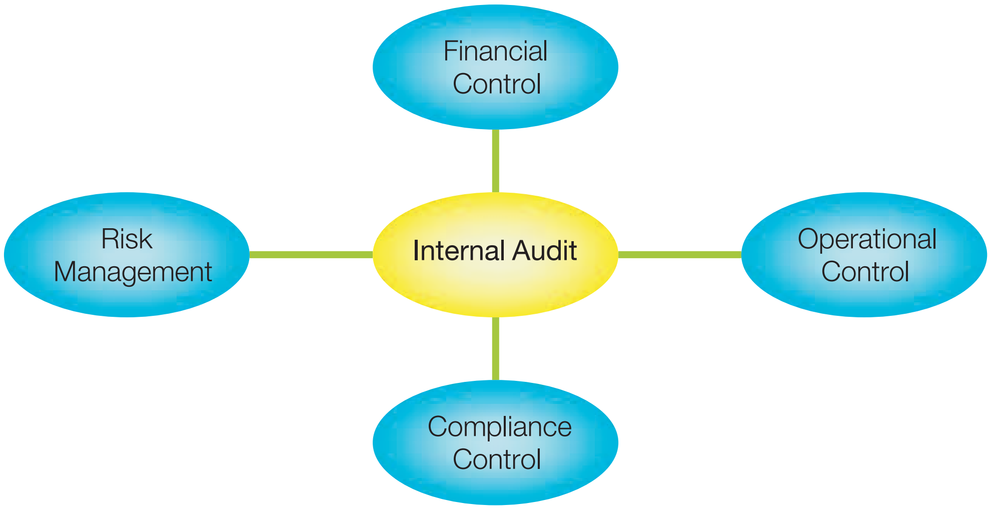
The Company has set up an Internal Audit Department which assists the Executive Committee and the Audit Committee to discharge its duties in this aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Executive Committee and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

Internal control system



INTERNAL CONTROL *(Continued)*

Internal audit functions



The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems. The Managing Director and the Chief Financial Officer of the Company have, respectively, submitted Representation Letters to the Audit Committee, in which they made representations as to the compliance by themselves and their subordinates of key internal control systems for the year ended 31 December 2008. The requirement for making Representation Letters by the key management can strengthen individual responsibility for corporate governance and controls.

To comply with the new code provision C.2.2 of the Code which became effective on 1 January 2009, the Board will include the review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget in its annual review since 2009.

CODE OF CONDUCT FOR 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 set out in Rules 5.48 to 5.67 of the GEM Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2008.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fee paid/payable *HK$'000*
Statutory audit services	1,081
Non-statutory audit services:	
Review on interim financial report	303
Special audit services	632
	2,016

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the quarterly, interim and annual financial statements, announcements and other financial disclosures required under the GEM Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 48 to 49 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual, interim and quarterly reports and announcements. All shareholders' communications are also available on the Company's website at www.gdc-world.com.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

During the year, separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

During the year, details of the poll voting procedures and rights of shareholders to demand a poll were included in the Company's circulars convening a general meeting. The chairman of a general meeting also explained the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll was demanded) revealed how many proxies for and against had been filed in respect of each resolution. The results of the poll were published on the websites of GEM and the Company respectively.

To comply with revised GEM Listing Rules which became effective on 1 January 2009, all notices of general meetings despatched by the Company to its shareholders for meetings held on or after 1 January 2009 shall be sent in the case of annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings, and all resolutions put to the vote of a general meeting shall be by way of a poll.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 46 and 22 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 50 to 113 of this annual report.

The Board of Directors of the Company does not recommend the payment of any dividend in respect of the year (2007: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 114 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 37 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 53 to 54 of this annual report.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$795,000.

DIRECTORS

The Directors of the Company during the year were as follows:

Cao Zhong
Chen Zheng
Jin Guo Ping
Lu Yi, Gloria
Leung Shun Sang, Tony
Kwong Che Keung, Gordon*
Hui Hung, Stephen*
Japhet Sebastian Law* *(appointed on 1 September 2008)*
Bu Fan Xiao* *(resigned on 1 September 2008)*

* *Independent Non-executive Directors*

In accordance with clause 87(2) of the Company's bye-laws, Mr. Chen Zheng, Mr. Jin Guo Ping and Mr. Kwong Che Keung, Gordon will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

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

The Directors of the Company who held office at 31 December 2008 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules"):

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of the Company as at 31.12.2008
Cao Zhong	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Chen Zheng	Beneficial owner	8,718,200	4,900,000	13,618,200	1.05%
Jin Guo Ping	Beneficial owner	–	8,008,200	8,008,200	0.62%
Lu Yi, Gloria	Beneficial owner	–	12,000,000	12,000,000	0.93%
Leung Shun Sang, Tony	Beneficial owner	10,008,200	4,900,000	14,908,200	1.15%
Kwong Che Keung, Gordon	Beneficial owner	800,820	490,000	1,290,820	0.10%
Hui Hung, Stephen	Beneficial owner	800,820	490,000	1,290,820	0.10%

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 18 July 2003 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.01 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

(b) Long positions in the shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in Shougang Grand: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of Shougang Grand as at 31.12.2008
Cao Zhong	Beneficial owner	–	22,868,000	22,868,000	1.99%
Chen Zheng	Beneficial owner	–	18,368,000	18,368,000	1.60%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	19,368,679	27,646,679	2.40%

* *The relevant interests are unlisted physically settled options granted pursuant to Shougang Grand's share option scheme adopted on 7 June 2002 (the "Shougang Grand Scheme"). Upon exercise of the share options in accordance with the Shougang Grand Scheme, ordinary shares of HK$0.01 each in the share capital of Shougang Grand are issuable. The share options are personal to the respective Directors.*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(c) Long positions in the shares and underlying shares of GDC Technology Limited ("GDC Tech"), an associated corporation of the Company

		Number of shares/underlying shares held in GDC Tech			
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests under equity derivatives***	**Total interests**	**Total interests as to % to the issued share capital of GDC Tech as at 31.12.2008**
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Lu Yi, Gloria	Beneficial owner	–	12,000,000	12,000,000	5.16%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%
Kwong Che Keung, Gordon	Beneficial owner	1,706,667	165,000	1,871,667	0.80%
Hui Hung, Stephen	Beneficial owner	–	165,000	165,000	0.07%

* *The relevant interests are unlisted physically settled options granted pursuant to GDC Tech's share option scheme adopted on 19 September 2006 (the "GDC Tech Scheme"). Upon exercise of the share options in accordance with the GDC Tech Scheme, ordinary shares of HK$0.10 each in the share capital of GDC Tech are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 11.04 of the GEM Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Cao Zhong	Shougang Grand#	Cultural recreation content provision∆	Vice chairman and managing director
Chen Zheng	Shougang Grand#	Cultural recreation content provision∆	Managing director of operations
Leung Shun Sang, Tony	Shougang Grand#	Cultural recreation content provision∆	Director

\# *Shougang Grand is the holding company of the Company which indirectly held approximately 52.57% interests in the Company as at 31 December 2008.*

∆ *Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

The Board of Directors of the Company is independent from the board of the above-mentioned entity and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of this entity.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies had long positions of 5% or more in the shares of the Company ("Notifiable Interest") which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2008
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	680,904,023 *(Note)*	52.57%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	680,904,023 *(Note)*	52.57%
Shougang Grand	Interests of controlled corporations	680,904,023 *(Note)*	52.57%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	656,360,023 *(Note)*	50.67%
Keywise Capital Management (HK) Limited	Investment manager	176,824,000	13.65%
Keywise Greater China Opportunities Master Fund	Beneficial owner	113,030,000	8.73%

Note: *Shougang Grand indicated in its disclosure form dated 3 April 2008 (being the latest disclosure form filed up to 31 December 2008) that as at 1 April 2008, its interests included 656,360,023 shares of the Company held by Upper Nice, an indirectly wholly-owned subsidiary of Shougang Grand. Upper Nice was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Grand.*

Shougang Holding indicated in its disclosure form dated 3 April 2008 (being the latest disclosure form filed up to 31 December 2008) that as at 1 April 2008, its interests included 680,904,023 shares of the Company held by Wheeling, a wholly-owned subsidiary of Shougang Holding. Wheeling was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Holding. As indicated in the said disclosure form, Shougang Grand was held as to approximately 37.40% by Wheeling and its interest was included in the interests held by Wheeling.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the GEM Listing Rules as at the date of this annual report.

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to eligible participants as rewards for their contributions to the Group. The Scheme will remain in force for a period of 10 years commencing on 4 August 2003, being the date on which dealings in the shares of the Company first commenced on the GEM, to 3 August 2013.

Under the Scheme, the Directors may, at their discretion, offer any full-time employees, Directors (including Independent Non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group and any advisors (professionals or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group who the Directors consider, in their sole discretion, have contributed or contribute to the Group, share options to subscribe for share of the Company.

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 54,432,020 which represents approximately 4.20% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 81,909,550, representing approximately 6.32% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of the Company and Shougang Grand respectively in general meetings. Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company or Shougang Grand, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company and Shougang Grand. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company or Shougang Grand, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the shares of the Company at the date of each offer), within any 12-month period, are subject to approval of the shareholders of the Company and Shougang Grand in advance in general meetings.

The period during which a share option may be exercised will be determined by the Directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

No share option was granted, exercised or cancelled in accordance with the terms of the Scheme during the year. Details of movements in the share options under the Scheme during the year are as follows:

	Options to subscribe for shares of the Company							
Category or name of grantees	At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company								
Cao Zhong	4,900,000	–	–	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Chen Zheng	4,900,000	–	–	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Jin Guo Ping	8,008,200	–	–	–	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Lu Yi, Gloria	12,000,000	–	–	–	12,000,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Leung Shun Sang, Tony	4,900,000	–	–	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Kwong Che Keung, Gordon	490,000	–	–	–	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Bu Fan Xiao	800,820	(800,820)[1]	–	–	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	490,000	(490,000)[1]	–	–	–	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	1,290,820	(1,290,820)	–	–	–			
Hui Hung, Stephen	490,000	–	–	–	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	36,979,020	(1,290,820)	–	–	35,688,200			
Employees of the Group	2,300,000	–	–	–	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK$1.07
	2,262,000	–	–	–	2,262,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	9,900,000	–	–	–	9,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	14,462,000	–	–	–	14,462,000			
Other participants	2,500,820	–	800,820[1]	(800,820)[1]	2,500,820	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	1,781,000	–	–	–	1,781,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	–	–	490,000[1]	(490,000)[1]	–	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	4,281,820	–	1,290,820	(1,290,820)	4,281,820			
	55,722,840	(1,290,820)	1,290,820	(1,290,820)	54,432,020			

SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

Note:

1. The share options were held by Professor Bu Fan Xiao who resigned as a Director of the Company during the year and such share options were re-classified from the category of "Director of the Company" to "Other participants" during the year. According to the Scheme, such share options shall lapse on the expiry of the three months period following the date of cessation as a Director of the Company. Accordingly, such share options were lapsed on 1 December 2008.

(b) Share option scheme of a subsidiary of the Company – GDC Tech

Each of the Company and Shougang Grand has adopted the GDC Tech Scheme by a shareholders' resolution passed at its special general meeting held on 19 September 2006.

The purpose of the GDC Tech Scheme is to enable GDC Tech to grant options to eligible participants as rewards for their contributions to GDC Tech, its subsidiaries and its holding companies (including intermediate and ultimate holding companies) (the "GDC Tech Group"). The GDC Tech Scheme will remain in force for a period of 10 years commencing on 19 September 2006, being the date of adoption of the GDC Tech Scheme, to 18 September 2016.

Under the GDC Tech Scheme, the directors of GDC Tech may, at their discretion, offer any full-time or part-time employees, executives, officers and directors (including non-executive directors and independent non-executive directors) of the GDC Tech Group and any advisors, consultants, suppliers, customers and agents to the GDC Tech Group and such other persons who the directors of GDC Tech consider, in their sole discretion, will contribute or have contributed to the GDC Tech Group, share options to subscribe for shares of GDC Tech.

The total number of shares of GDC Tech which may be issued upon exercise of all outstanding share options granted under the GDC Tech Scheme is 23,699,998 which represents approximately 10.19% of the issued share capital of GDC Tech as at the date of this annual report. The maximum number of shares of GDC Tech available for issue upon exercise of all share options which may be granted under the GDC Tech Scheme is 9,023,024, representing approximately 3.88% of the issued share capital of GDC Tech as at the date of this annual report. The total number of shares of GDC Tech issued and to be issued upon the exercise of share options granted under the GDC Tech Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC Tech as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of the Company and Shougang Grand respectively in general meetings. Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company or Shougang Grand, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company and Shougang Grand. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company or Shougang Grand, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC Tech in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of the Company and Shougang Grand in advance in general meetings.

The period during which a share option may be exercised will be determined by the directors of GDC Tech at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Tech Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC Tech are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Tech *(Continued)*

The exercise price in relation to each share option will be determined by the directors of GDC Tech at their absolute discretion and shall not be less than the nominal value of a share of GDC Tech and shall be subject to the approval of the Board of Directors of the Company or any committee duly constituted thereof. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the GDC Tech Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

No share option was granted, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the year. Details of movements in the share options under the GDC Tech Scheme during the year are as follows:

	Options to subscribe for shares of GDC Tech					
Category or name of grantees	**At the beginning of the year**	**Lapsed during the year**	**At the end of the year**	**Date of grant**	**Exercise period**	**Exercise price per share**
Directors of the Company						
Cao Zhong	1,650,000	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
Chen Zheng	1,650,000	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
Lu Yi, Gloria	12,000,000[1]	–	12,000,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
Leung Shun Sang, Tony	3,333[2]	–	3,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	1,650,000	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	1,653,333	–	1,653,333			
Kwong Che Keung, Gordon	165,000	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
Bu Fan Xiao	165,000	(165,000)[3]	–	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
Hui Hung, Stephen	165,000	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	17,448,333	(165,000)	17,283,333			
Employees of the Group	4,563,332	(650,000)[4]	3,913,332	05.10.2006	05.10.2006 – 04.10.2009	HK$0.145
	1,650,000	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	6,213,332	(650,000)	5,563,332			
Other participants	1,173,333	(320,000)[5]	853,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	24,834,998	(1,135,000)	23,699,998			

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Tech *(Continued)*

Notes:

1. The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of the Company and Shougang Grand on 30 October 2007 respectively.

2. The number of share options granted to Mr. Leung Shun Sang, Tony on 29 September 2006 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of the Company and Shougang Grand on 19 September 2006 respectively.

3. The share options were held by Professor Bu Fan Xiao who resigned as a Director of the Company during the year and such share options were lapsed on 1 September 2008.

4. The share options were held by four grantees who ceased to be employees of the Group during the year and such share options were lapsed on 28 June 2008, 1 October 2008, 1 November 2008 and 6 December 2008 respectively.

5. The share options were held by a grantee who ceased to be an employee of Shougang Grand during the year and such share options were lapsed on 1 November 2008.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

DISTRIBUTION RESERVES

At the balance sheet date, the Company had distributable reserves of approximately HK$252,200,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 20% of the revenue for the year and the largest customer included therein amounted to approximately 6%. Purchases from the Group's five largest suppliers accounted for approximately 29% of the cost of sales for the year. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

As stated in the announcement of the Company dated 12 April 2007, a master supply agreement (the "Master Supply Agreement") was entered into between GDC Tech and Shougang Grand on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Tech agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related equipment and services. As at the date of the Master Supply Agreement, Shougang Grand was a substantial shareholder and was interested as to approximately 58% in the issued share capital of the Company; GDC Tech was a non-wholly owned subsidiary of the Company in which the Company was interested as to approximately 56.25% of its issued share capital. Accordingly, transactions between GDC Tech and Shougang Grand and/or its associates constituted connected transactions for the Company under the GEM Listing Rules. The annual cap amounts of the transactions contemplated under the Master Supply Agreement for each of the period ended 31 December 2007 and the two financial years ending 31 December 2009 will not exceed US$103,000,000, US$104,500,000 and US$106,000,000, respectively. The sales were for the purpose of deployment of digital cinema equipment. The Master Supply Agreement and the relevant cap amounts were approved by the independent shareholders of the Company and Shougang Grand on 6 June 2007, respectively.

During the year, no transaction was entered into between GDC Tech and Shougang Grand and/or its associates under the Master Supply Agreement.

As far as the transactions set out in note 45(a) to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in notes (i) to (iii) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 24 to 35 of this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 44 to the consolidated financial statements.

AUDITOR

Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company in place of Messrs. PricewaterhouseCoopers upon their resignation on 4 March 2005.

By Order of the Board
Cao Zhong
Chairman

16 March 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 113, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	7	**120,180**	246,125
Cost of sales		**(106,042)**	(165,544)
Gross profit		**14,138**	80,581
Other income	10	**3,066**	14,413
Distribution costs and selling expenses		**(9,035)**	(7,720)
Administrative expenses		**(60,073)**	(99,878)
Changes in fair value of held-for-trading investments		**(939)**	–
Finance costs	11	**(2,428)**	(4,002)
Share of loss of an associate		**(857)**	(298)
Other expense	12	**(22,202)**	–
Discount on acquisition of additional interest in a subsidiary	38	**–**	1,342
Gain on dilution of interest in a subsidiary	13	**–**	40,130
(Loss) profit before tax		**(78,330)**	24,568
Income tax credit (expense)	14	**2,183**	(3,099)
(Loss) profit for the year	15	**(76,147)**	21,469
Attributable to:			
Equity holders of the Company		**(71,688)**	18,302
Minority interests		**(4,459)**	3,167
		(76,147)	21,469
		HK cents	*HK cents*
(Loss) earnings per share	17		
Basic		**(5.53)**	1.62
Diluted		**N/A**	1.57

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	18	**28,265**	14,780
Intangible asset	19	**244,111**	221,545
Available-for-sale investment	20	**–**	–
Prepaid lease payments	21	**5,924**	5,612
Interest in an associate	22	**21,856**	424
Advance	44(a)	**68,182**	–
Pledged bank deposit	29	**665**	–
Advance paid for acquisition of intangible asset		**–**	35,581
		369,003	277,942
Current assets			
Inventories	23	**15,682**	6,761
Production work in progress	24	**–**	–
Amounts due from customers for contract work	25	**16,935**	1,494
Trade receivables	26	**7,375**	11,502
Prepayments, deposits and other receivables		**13,436**	11,434
Prepaid lease payments	21	**125**	114
Amount due from an associate	27	**–**	1,053
Held-for-trading investments	28	**1,539**	–
Pledged bank deposit	29	**2,808**	7,800
Bank balances and cash	29	**72,155**	210,377
		130,055	250,535
Current liabilities			
Income received in advance		**26,792**	10,189
Amounts due to customers for contract work	25	**1,763**	1,440
Trade payables	30	**6,874**	4,197
Other payables and accruals		**26,622**	18,596
Amounts due to fellow subsidiaries	31	**13,315**	2,553
Amounts due to directors	32	**–**	2,912
Amounts due to other related parties	33	**–**	877
Tax liabilities		**967**	3,099
Loan from a fellow subsidiary – due within one year	34	**30,000**	35,000
Obligations under finance leases	35	**–**	525
Secured bank borrowing – due within one year	36	**14,773**	13,898
		121,106	93,286
Net current assets		**8,949**	157,249
Net assets		**377,952**	435,191

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	37	**12,952**	12,952
Share premium and reserves		**292,079**	345,084
Equity attributable to equity holders of the Company		**305,031**	358,036
Share options reserve of a subsidiary		**15,838**	15,988
Minority interests		**57,083**	61,167
Total equity		**377,952**	435,191

The consolidated financial statements on pages 50 to 113 were approved and authorised for issue by the Board of Directors on 16 March 2009 and are signed on its behalf by:

Cao Zhong
DIRECTOR

Chen Zheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium account HK$'000	Capital contribution reserve HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Statutory reserve HK$'000 (Note c)	Share options reserve HK$'000	Exchange reserve HK$'000	Special reserve HK$'000 (Note d)	Accumulated (losses) profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	8,008	92,438	445	40,271	680	5,590	(2,205)	–	(300,253)	(155,026)	317	–	(154,709)
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	5,271	–	–	5,271	–	22	5,293
Profit for the year	–	–	–	–	–	–	–	–	18,302	18,302	–	3,167	21,469
Total recognised income for the year	–	–	–	–	–	–	5,271	–	18,302	23,573	–	3,189	26,762
Sub-total	8,008	92,438	445	40,271	680	5,590	3,066	–	(281,951)	(131,453)	317	3,189	(127,947)
Shares issued	4,320	479,624	–	–	–	–	–	–	–	483,944	–	–	483,944
Transaction costs attributable to issue of shares	–	(12,740)	–	–	–	–	–	–	–	(12,740)	–	–	(12,740)
Increase in minority share in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	9,940	9,940
Exercise of share options	624	30,348	–	–	–	(7,817)	–	–	–	23,155	–	–	23,155
Exercise of share options of a subsidiary	–	–	–	–	–	–	–	–	–	–	(235)	3,014	2,779
Recognition of equity-settled share-based payments	–	–	–	–	–	41,488	–	–	–	41,488	15,914	–	57,402
Cancellation of share options granted by a subsidiary	–	–	–	–	–	–	–	–	8	8	(8)	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(46,366)	–	(46,366)	–	45,024	(1,342)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	**Share premium account** HK$'000	**Capital contribution reserve** HK$'000 (Note a)	**Contributed surplus** HK$'000 (Note b)	**Statutory reserve** HK$'000 (Note c)	**Share options reserve** HK$'000	**Exchange reserve** HK$'000	**Special reserve** HK$'000 (Note d)	**Accumulated (losses) profits** HK$'000	**Total** HK$'000	**Share options reserve of a subsidiary** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 31 December 2007 and 1 January 2008	12,952	589,670	445	40,271	680	39,261	3,066	(46,366)	(281,943)	358,036	15,988	61,167	435,191
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	18,533	–	–	18,533	–	375	18,908
Loss for the year	–	–	–	–	–	–	–	–	(71,688)	(71,688)	–	(4,459)	(76,147)
Total recognised income (expense) for the year	–	–	–	–	–	–	18,533	–	(71,688)	(53,155)	–	(4,084)	(57,239)
Sub-total	12,952	589,670	445	40,271	680	39,261	21,599	(46,366)	(353,631)	304,881	15,988	57,083	377,952
Reduction of share premium account (Note e)	–	(589,670)	–	589,670	–	–	–	–	–	–	–	–	–
Elimination of accumulated losses (Note e)	–	–	–	(384,060)	–	–	–	–	384,060	–	–	–	–
Cancellation of share options granted	–	–	–	–	–	(496)	–	–	496	–	–	–	–
Cancellation of share options granted by a subsidiary	–	–	–	–	–	–	–	–	150	150	(150)	–	–
At 31 December 2008	12,952	–	445	245,881	680	38,765	21,599	(46,366)	31,075	305,031	15,838	57,083	377,952

Notes:

(a) Capital contribution reserve represents accumulated effect of imputed interest on amount due to other related party.

(b) Contributed surplus represents the difference between the nominal value of share capital of the Company issued and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002, and the transfers as mentioned in note (e) below.

(c) As stipulated by the rules and regulations in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. 環球數碼媒體科技研究(深圳)有限公司("IDMT Shenzhen") and 環球數碼媒體科技(上海)有限公司, wholly-foreign owned enterprises established in the PRC, are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their registered capital thereafter any further appropriation is optional and is determinable by the companies' board of directors. The statutory reserve as at 31 December 2008 represents general reserve fund of IDMT Shenzhen of approximately HK$680,000 (2007: HK$680,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

(d) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from minority shareholders during the year ended 31 December 2007. This special reserve will be recognised in the consolidated income statement upon the disposal of the subsidiary (see Note 38).

(e) A special resolution was passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008 and completed thereafter whereby an amount of approximately HK$589,670,000 standing to the credit of the share premium account of the Company as at 31 December 2007 has been reduced with the credit arising therefrom being transferred to the contributed surplus of the Company. Upon the said transfer becoming effective, an amount of approximately HK$384,060,000 standing to the credit of the contributed surplus of the Company has been applied to eliminate the accumulated losses of the Company as at 31 December 2007. The Company has complied with the requirement of section 46(2) of The Companies Act 1981 of Bermuda (as amended). Details of which are set out in the circular of the Company dated 9 May 2008.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
(Loss) profit before tax	**(78,330)**	24,568
Adjustments for:		
Amortisation of intangible asset	**28,491**	–
Share-based payment expense	**–**	57,402
Depreciation	**4,865**	1,088
Allowance for bad and doubtful debts	**386**	230
Allowance for inventories	**1,031**	–
Amortisation of prepaid lease payments	**125**	68
Loss (gain) on disposal of property, plant and equipment	**11**	(20)
Changes in fair value of held-for-trading investments	**939**	–
Finance costs	**2,428**	4,002
Share of loss of an associate	**857**	298
Interest income	**(2,237)**	(6,252)
Gain on disposal of intangible asset	**(104)**	–
Gain on dilution of interest in a subsidiary	**–**	(40,130)
Discount on acquisition of additional interest in a subsidiary	**–**	(1,342)
Operating cashflow before movements in working capital	**(41,538)**	39,912
Increase in inventories	**(9,952)**	(4,292)
(Increase) decrease in amounts due from customers for contract work	**(13,549)**	168
Decrease (increase) in trade receivables	**3,827**	(138,328)
Increase in prepayments, deposits and other receivables	**(2,002)**	(7,754)
Increase in held-for-trading investments	**(2,478)**	–
Increase in income received in advance	**16,813**	3,733
Increase in amounts due to customers for contract work	**338**	227
Increase in trade payables	**2,677**	1,359
Increase (decrease) in other payables and accruals	**7,906**	(11,340)
Decrease in amounts due to fellow subsidiaries	**(4,141)**	(540)
(Decrease) increase in amounts due to directors	**(2,912)**	604
NET CASH USED IN OPERATING ACTIVITIES	**(45,011)**	(116,251)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES		
Advance to a third party	**(68,182)**	–
Investment in an associate	**(21,084)**	(722)
Purchase of property, plant and equipment	**(20,130)**	(12,762)
Acquisition of intangible asset	**(548)**	(88,633)
Prepaid lease payments	**(87)**	(5,794)
Advance paid for acquisition of intangible asset	**–**	(35,581)
Decrease (increase) in pledged bank deposits	**4,327**	(7,800)
Interest received	**2,237**	6,252
Proceeds from disposal of intangible asset	**1,250**	–
Repayment from (advance to) an associate	**1,053**	(1,053)
Proceeds from disposal of property, plant and equipment	**–**	20
NET CASH USED IN INVESTING ACTIVITIES	**(101,164)**	(146,073)
FINANCING ACTIVITIES		
New bank loan raised	**14,773**	13,898
Advance received from a fellow subsidiary	**13,600**	–
Proceeds from issue of shares, net of transaction costs	**–**	471,204
Proceeds from issue of shares of a subsidiary to a minority shareholder, net of transaction costs	**–**	50,235
Exercise of share options	**–**	23,155
Exercise of share options in a subsidiary	**–**	2,614
Net repayment of loan from a fellow subsidiary	**(5,000)**	(66,360)
Repayment of advance from other related parties	**(908)**	(2,440)
Repayment of bank loan	**(13,898)**	(10,000)
Interest paid	**(1,094)**	(3,850)
Repayment of obligations under finance leases	**(525)**	(1,448)
Repayment to shareholders	**–**	(339)
Repayment of other loans	**–**	(18,295)
NET CASH FROM FINANCING ACTIVITIES	**6,948**	458,374
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(139,227)**	196,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**210,377**	8,596
Effect of Foreign Exchange Rate Changes	**1,005**	5,731
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**72,155**	210,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Shougang Concord Grand (Group) Limited ("Shougang Grand"), a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Stock Exchange. The immediate holding company is Upper Nice Assets Ltd., a wholly-owned subsidiary of Shougang Grand. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 46.

The functional currency of the Company is United States dollars. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company (the "Directors") anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Acquisition of additional interest in a subsidiary

Goodwill arising on acquisition of additional interest in a subsidiary represents the excess of the cost of the acquisition over the fair value of the net assets attributable to the additional interest in a subsidiary. If, after reassessment, the fair value of the net assets attributable to the additional interest in a subsidiary by the Group exceeds the cost of the acquisition, the excess is recognised immediately in profit and loss. The difference between the fair value and the carrying value of the underlying assets and liabilities attributable to the additional interest in a subsidiary is debited directly to special reserve.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns, discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Training fee income is recognised over the period of the training course on a straight line basis. Unearned training fee income received is recorded as income received in advance.

Royalty income from share of box office receipts is recognised when the digital motion pictures are exhibited using the digital cinema equipment sold by the Group and the right to receive a certain percentage on the relevant box office receipts has been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Receipts from exhibition of digital motion pictures were recognised when the digital motion pictures were exhibited.

Technical service income is recognised when the service is provided.

Rental income from equipment leasing is recognised on a straight line basis over the relevant lease terms.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Subcontracting contracts for computer graphic ("CG") creation and production

Where the outcome of a subcontracting contract of CG creation and production can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Where the outcome of a subcontracting contract cannot be estimated reliably, subcontracting revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress includes property in the course of construction for its own use purposes as well as self-constructed investment property. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and presented as other payables. Grants related to depreciable assets are recognised as income on a systematic and rational basis over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Production work in progress

Production work in progress is stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Production costs are transferred to cost of sales upon completion.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial asset at FVTPL represents financial assets held-for-trading. A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including advance, trade receivables, other receivables, amount due from an associate, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. (See accounting policy on impairment of financial assets below.)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to fellow subsidiaries, directors and other related parties, secured bank borrowing and loan from a fellow subsidiary are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Equity-settled share-based payment transactions

Share options granted to the Directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve). For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or cancelled or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted in exchange of services

Share options issued in exchange for services are measured at the fair values of the services received similar to those as employees, unless that fair value cannot be reliably measured, in which case the services are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible asset

At 31 December 2008, the carrying amount of intangible asset was approximately HK$244,111,000 (2007: HK$221,545,000). In determining whether there is objective evidence of impairment loss, the Directors take into consideration the estimation of future cash flows to be generated from use of the intangible asset and fair value of the intangible asset less cost to sell. The amount of the impairment loss is measured as the difference between the asset's carrying amount and higher of the present value of estimated future cash flows discounted at a suitable discount rate or the fair value less cost to sell. Where the actual future cash flows or the net selling price are less than expected, an impairment loss may arise.

During the year ended 31 December 2008 and 2007, the Directors did not identify any impairment loss on the intangible asset.

Provision for litigation

The management of the Group monitor any litigation against the Group closely. Provision for the litigation is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2008 and 2007, there is no foreseeable financial impact to the Group and no provision for litigation has been made. Details are set out in note 47.

5. FINANCIAL INSTRUMENTS

5a. Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Financial assets at FVTPL	**1,539**	–
Loans and receivables (including cash and cash equivalents)	**152,733**	237,310
Financial liabilities		
Amortised cost	**80,084**	67,722

5b. Financial risk management objectives and polices

The Group's major financial instruments include advance, trade receivables, other receivables, amount due from an associate, held-for-trading investments, pledged bank deposits, bank balances and cash, trade payables, other payables, amounts due to fellow subsidiaries, directors and other related parties, secured bank borrowing and loan from a fellow subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group earns revenue in United States dollars and Renminbi, and incurs costs in United States, Renminbi and Hong Kong dollars which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposures. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2008 and 2007, the Group has no significant exposure under foreign exchange.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the market interest rate on certain variable rate bank balances as disclosed in note 29 and variable rate secured bank borrowing as at 31 December 2008 as disclosed in note 36, which carry interest at prevailing market interest rates and the People's Bank of China Renminbi Lending Rate, respectively.

The Group's fair value interest rate risk relates primarily to its fixed rate secured bank borrowing as at 31 December 2007 as disclosed in note 36 and fixed rate loan from a fellow subsidiary as disclosed in note 34. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

(ii) *Interest rate risk (Continued)*

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China Renminbi Lending Rate arising from the Group's Renminbi denominated bank borrowing.

Interest rate sensitivity

At the balance sheet date, if interest rate had been 100 basis points higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2008 would decrease/increase by approximately HK$248,000 (2007: increase/decrease in profit after tax by approximately HK$1,861,000).

The Group's sensitivity to market interest rate was increased from prior year.

(iii) *Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The Group currently does not use any derivative contracts to hedge its exposure to other price risk. However, the management will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, loss after tax for the year ended 31 December 2008 would decrease/increase by approximately HK$77,000 (2007: Nil) as a result of the changes in fair value of held-for-trading investments.

The Group's sensitivity to held-for-trading investments has increased from the prior year.

Credit risk

As at 31 December 2008 and 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

Credit risk (Continued)

The Group's credit risk is also attributable to advance paid to a third party as disclosed in note 44(a). The management of the Company reviews the recoverability of the amount at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amount. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk for its trade receivables by geographical locations is mainly in the United States, which accounted for 25% (2007: 55%) of the total trade receivable as at 31 December 2008.

The Group has concentration of credit risk as 21% (2007: 40%) and 60% (2007: 86%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group has a concentration of credit risk arising from the advance due from a single counterparty as disclosed in note 44(a).

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings from time to time.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows as at 31.12.2008 HK$'000	Carrying amount at 31.12.2008 HK$'000
Non-derivative financial liabilities						
Trade payables	–	**3,686**	**1,639**	**1,549**	**6,874**	**6,874**
Other payables	–	**5,421**	**945**	**8,756**	**15,122**	**15,122**
Amounts due to fellow subsidiaries	–	**13,315**	**–**	**–**	**13,315**	**13,315**
Loan from a fellow subsidiary	6	**–**	**30,300**	**–**	**30,300**	**30,000**
Secured bank borrowing	7	**–**	**15,076**	**–**	**15,076**	**14,773**
		22,422	**47,960**	**10,305**	**80,687**	**80,084**

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows as at 31.12.2007 HK$'000	Carrying amount at 31.12.2007 HK$'000
Non-derivative financial liabilities						
Trade payables	–	2,116	2,081	–	4,197	4,197
Other payables	–	5,188	595	1,977	7,760	7,760
Amounts due to fellow subsidiaries	–	2,553	–	–	2,553	2,553
Amounts due to directors	–	2,797	–	115	2,912	2,912
Amounts due to other related parties	–	–	–	877	877	877
Loan from a fellow subsidiary	6	–	37,100	–	37,100	35,000
Obligations under finance leases	9	75	223	227	525	525
Secured bank borrowing	7	–	13,977	–	13,977	13,898
		12,729	53,976	3,196	69,901	67,722

5. FINANCIAL INSTRUMENTS *(Continued)*

5c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- The fair value of the other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The Directors consider that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements approximate their fair values.

6. CAPITAL RISK MANAGEMENT

The Group's objectives to manage its capital are to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth; and to strengthening the Group's financial management capability. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes loan from a fellow subsidiary, obligations under finance leases and secured bank borrowing disclosed in notes 34, 35 and 36, respectively, and total equity.

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using total debt to equity ratio. These ratios as at 31 December 2008 and 2007 were as follows:

	2008	2007
	HK$'000	*HK$'000*
Total debt [1]	**44,773**	49,423
Equity [2]	**377,952**	435,191
Total debt to equity ratio (%)	**12**	11

The Directors considered that the Group maintained a healthy capital ratio as at 31 December 2008 and 2007 as the total debt to equity ratio was at a relative low level.

Notes:

(1) Total debt equals to sum of loan from a fellow subsidiary, obligations under finance leases and secured bank borrowing.

(2) Equity includes all capital and reserves of the Group.

7. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers (less sales related taxes, returns and trade discounts), CG creation and production services, revenue arising on training fee, royalty income from share of box office receipts, receipts from exhibition of digital motion pictures, technical service income and rental income from equipment leasing during the year, is as follows:

	2008 *HK$'000*	2007 *HK$'000*
Sales of goods	**51,984**	180,715
Revenue from contracts for CG creation and production	**42,542**	51,300
Training fee	**14,420**	10,963
Royalty income from share of box office receipts	**5,518**	–
Receipts from exhibition of digital motion pictures	**3,024**	–
Technical service income	**2,652**	3,131
Rental income from equipment leasing	**40**	16
	120,180	246,125

Included in revenue for the year ended 31 December 2007 was an amount of HK$132,912,000 (2008: Nil) in respect of goods sold in exchange for intangible asset.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – CG creation and production, digital content distribution and exhibitions and the provision of CG training courses. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2008

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Consolidated *HK$'000*
Revenue				
External sales	45,566	60,194	14,420	120,180
Result				
Segment result	5,121	(66,711)	2,510	(59,080)
Unallocated corporate income				2,244
Unallocated corporate expenses				(17,270)
Changes in fair value of held-for-trading investments				(939)
Finance costs				(2,428)
Share of loss of an associate	–	(857)	–	(857)
Loss before tax				(78,330)
Income tax credit				2,183
Loss for the year				(76,147)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2008

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'000*
OTHER INFORMATION					
Capital additions	17,750	39,345	1,453	38	58,586
Other expense *(Note 12)*	–	22,202	–	–	22,202
Depreciation	2,475	1,442	736	212	4,865
Allowance for bad and doubtful debts	–	–	386	–	386
Allowance for inventories	–	1,031	–	–	1,031
Loss on disposal of property, plant and equipment	11	–	–	–	11
Gain on disposal of intangible asset	–	104	–	–	104
Amortisation of intangible asset (included in cost of sales)	–	28,491	–	–	28,491
Amortisation of prepaid lease payments	125	–	–	–	125

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

At 31 December 2008

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Consolidated *HK$'000*
BALANCE SHEET				
Assets				
Segment assets	23,883	374,957	4,267	403,107
Interest in an associate	–	21,856	–	21,856
Unallocated corporate assets				74,095
Consolidated total assets				499,058
Liabilities				
Segment liabilities	31,694	32,253	4,864	68,811
Unallocated corporate liabilities				52,295
Consolidated total liabilities				121,106

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2007

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Consolidated *HK$'000*
Revenue				
External sales	51,300	183,862	10,963	246,125
Result				
Segment result	17,499	4,522	1,987	24,008
Unallocated corporate income				10,432
Unallocated corporate expenses				(47,044)
Finance costs				(4,002)
Share of loss of an associate	–	(298)	–	(298)
Discount on acquisition of additional interest in a subsidiary	–	1,342	–	1,342
Gain on dilution of interest in a subsidiary	–	40,130	–	40,130
Profit before tax				24,568
Income tax expense				(3,099)
Profit for the year				21,469

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2007

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION					
Capital additions	10,892	225,121	2,734	1,354	240,101
Depreciation	132	115	351	490	1,088
Allowance for bad and doubtful debts	230	–	–	–	230
Gain on disposal of property, plant and equipment	20	–	–	–	20
Amortisation of prepaid lease payments	68	–	–	–	68
Share-based payment expense	–	15,914	–	41,488	57,402

At 31 December 2007

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
BALANCE SHEET				
Assets				
Segment assets	32,156	259,886	6,296	298,338
Interest in an associate	–	424	–	424
Unallocated corporate assets				229,715
Consolidated total assets				528,477
Liabilities				
Segment liabilities	8,367	24,678	6,405	39,450
Unallocated corporate liabilities				53,836
Consolidated total liabilities				93,286

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

The Group's three business segments operate in four main geographical areas, namely the PRC, the United States, Europe and other regions. The head office of the Group is located in Hong Kong. The Group's CG creation and production centres and the CG training facilities are located in the PRC. Customers of the Group's digital content distribution and exhibitions business are mainly located in the PRC, the United States and other regions.

The following table provides an analysis of the Group's revenue by geographical market based on geographical location of customers, irrespective of the origin of the goods.

	2008	2007
	HK$'000	*HK$'000*
The PRC	**55,523**	141,721
United States	**36,434**	68,073
Europe	**12,076**	12,962
Other regions	**16,147**	23,369
	120,180	246,125

The following is an analysis of the carrying amount of segment assets, and additions to capital additions, analysed by the geographical area in which the assets are located:

	Segment assets		**Capital additions**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**465,128**	319,816	**58,038**	236,239
Hong Kong	**29,494**	204,174	**397**	3,049
United States	**342**	1,986	**137**	177
Singapore	**4,094**	2,501	**14**	636
Total	**499,058**	528,477	**58,586**	240,101

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2007: 10) Directors were as follows:

		Year ended 31 December 2008			
	Notes	**Fees** *HK$'000*	**Salaries and other benefits** *HK$'000*	**Retirement benefits schemes contributions** *HK$'000*	**Total** *HK$'000*
Executive Directors:					
Cao Zhong		–	1,500	8	1,508
Chen Zheng		–	1,690	12	1,702
Jin Guo Ping		–	1,170	12	1,182
Lu Yi, Gloria		–	2,680	12	2,692
		–	7,040	44	7,084
Non-executive Director:					
Leung Shun Sang, Tony		190	–	–	190
Independent non-executive Directors:					
Kwong Che Keung, Gordon		240	–	–	240
Hui Hung, Stephen		240	–	–	240
Japhet Sebastian Law	*(a)*	80	–	–	80
Bu Fan Xiao	*(b)*	160	–	–	160
		720	–	–	720
		910	7,040	44	7,994

Notes:

(a) Appointed on 1 September 2008.

(b) Resigned on 1 September 2008.

In the year ended 31 December 2008, Mr. Cao Zhong waived emoluments of approximately HK$604,000. No other Directors waived any emoluments in the year ended 31 December 2008.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

		Year ended 31 December 2007				
	Notes	Fees HK$'000	Share–based payments HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive Directors:						
Cao Zhong		120	5,695	1,200	–	7,015
Chen Zheng		480	5,695	1,200	–	7,375
Jin Guo Ping		–	–	1,101	12	1,113
Lu Yi, Gloria	*(a)*	–	20,580	1,120	4	21,704
Xu Qing, Catherine	*(b)*	–	–	792	11	803
		600	31,970	5,413	27	38,010
Non-executive Directors:						
Leung Shun Sang, Tony		120	5,695	–	–	5,815
Deng Wei, David	*(c)*	15	–	–	–	15
		135	5,695	–	–	5,830
Independent non-executive Directors:						
Kwong Che Keung, Gordon		150	569	–	–	719
Hui Hung, Stephen		150	569	–	–	719
Bu Fan Xiao		150	569	–	–	719
		450	1,707	–	–	2,157
		1,185	39,372	5,413	27	45,997

Notes:

(a) Appointed on 20 September 2007.

(b) Resigned on 1 December 2007.

(c) Resigned on 15 February 2007.

No Directors waived any emoluments in the year ended 31 December 2007.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2007: four) were the Directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2007: one) highest paid individuals were as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Salaries and other benefits	**2,430**	2,560
Retirement benefits schemes contributions	**12**	12
Share-based payment	**–**	11,387
	2,442	13,959

10. OTHER INCOME

	2008 ***HK$'000***	2007 *HK$'000*
Interest income	**2,237**	6,252
Sundry income *(Note)*	**829**	8,161
	3,066	14,413

Note: Sundry income for the year ended 31 December 2007 mainly included waiver of interest payable on other loan from Win Real Management Limited and waiver of rental payable to a landlord,深圳大學文化科技服務有限公司, in the amounts of approximately HK$4,156,000 and approximately HK$3,228,000, respectively.

11. FINANCE COSTS

	2008 ***HK$'000***	2007 *HK$'000*
Interest on:		
Loan from a fellow subsidiary	**1,303**	3,402
Bank borrowing wholly repayable within five years	**1,078**	353
Loan from other related party *(Note 33(b))*	**31**	152
Finance leases	**16**	92
Others	**–**	3
	2,428	4,002

12. OTHER EXPENSE

Other expense for the year ended 31 December 2008 represents an one-off payment to China Film Group Corporation ("CFGC"), the majority shareholder of an associate of the Group, for the acquisition of certain of its film distribution rights in the PRC.

13. GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount for the year ended 31 December 2007 included (i) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007; and (ii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during that year.

14. INCOME TAX CREDIT (EXPENSE)

	2008 ***HK$'000***	2007 *HK$'000*
The income tax (credit) expense comprises:		
Current tax:		
Hong Kong	**63**	904
PRC Enterprise Income Tax ("EIT")	**–**	2,195
	63	3,099
Overprovision in prior year:		
PRC EIT	**(2,246)**	–
	(2,183)	3,099

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the EIT rate of certain Group's subsidiaries operating in the PRC was either reduced from 33% to 25% or was increased from 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC ranged from 18% to 25% (2007: 15% to 33%).

14. INCOME TAX CREDIT (EXPENSE) *(Continued)*

For the year ended 31 December 2008, no provision for PRC EIT has been made in the consolidated income statement as the PRC subsidiaries were either exempted from PRC EIT or did not have assessable profits for the year. In 2008, a PRC subsidiary was granted two years tax exemption for the financial years ended 2007 and 2008, a provision for PRC EIT of approximately HK$2,246,000 made in 2007 was therefore reversed in the consolidated income statement for current financial year.

The income tax (credit) expense for the year can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
(Loss) profit before tax	**(78,330)**	24,568
Tax calculated at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(12,924)**	4,299
Tax effect of income not taxable for tax purposes	**(530)**	(9,547)
Tax effect of expenses not deductible for tax purpose	**7,739**	7,430
Tax effect of tax losses not recognised	**7,462**	674
Utilisation of tax losses previously not recognised	**(211)**	(2,058)
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	**–**	2,961
Utilisation of temporary differences arising from unrealised profits resulting from intra-group transactions previously not recognised	**(279)**	–
Effect of tax exemption granted to a subsidiary in the PRC	**(1,068)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3)**	(436)
Overprovision in prior year	**(2,246)**	–
Others	**(123)**	(224)
Income tax (credit) expense for the year	**(2,183)**	3,099

At the balance sheet date, the Group has the following major deductible temporary differences and tax losses, of which no deferred tax assets were recognised due to the unpredictability of the future profit streams:

	2008	2007
	HK$'000	*HK$'000*
Unrealised profits resulting from intra-group transactions	**15,228**	16,920
Estimated tax losses that may be carried forward	**56,753**	12,808
	71,981	29,728

15. (LOSS) PROFIT FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Staff costs, including directors' emoluments *(Note 9(a))*:		
– Salaries, wages and other benefits	**75,342**	61,148
– Retirement benefit scheme contributions	**2,416**	1,624
– Share-based payment expense	**–**	57,402
Total staff costs	**77,758**	120,174
Less: amounts included in contracts work in progress	**(10,526)**	(13,612)
	67,232	106,562
Allowance for bad and doubtful debts	**386**	230
Allowance for inventories	**1,031**	–
Amortisation of intangible asset (included in cost of sales)	**28,491**	–
Amortisation of prepaid lease payments	**125**	68
Auditor's remuneration	**2,061**	1,743
Cost of inventories recognised as an expense	**35,574**	137,819
Depreciation	**7,337**	3,137
Less: amounts included in contracts work in progress	**(1,904)**	(1,514)
government grants	**(568)**	(535)
	4,865	1,088
Exchange loss, net	**–**	109
Loss on disposal of property, plant and equipment	**11**	–
Minimum lease payments under operating leases for land and buildings	**5,625**	6,004
Less: amounts included in contracts work in progress	**(916)**	(1,917)
	4,709	4,087
Research and development costs	**2,843**	4,432
and after crediting:		
Exchange gain, net	**406**	–
Gain on disposal of intangible asset	**104**	–
Gain on disposal of property, plant and equipment	**–**	20
Interest income	**2,237**	6,252

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

17. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((Loss) profit for the year attributable to equity holders of the Company)	**(71,688)**	18,302

	2008	2007
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**1,295,246**	1,132,828
Effect of dilutive potential ordinary shares:		
Options	**–**	30,608
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**1,295,246**	1,163,436

No diluted loss per share has been calculated for the year ended 31 December 2008 as the exercise of the share options could result in a decrease in the loss per share.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Equipment, furniture and fixtures *HK$'000*	Computer equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2007	23,169	1,640	40,277	459	–	65,545
Exchange realignment	1,562	60	1,313	10	–	2,945
Additions	2,067	2,392	6,144	640	1,519	12,762
Disposals	–	–	(35)	–	–	(35)
At 31 December 2007	26,798	4,092	47,699	1,109	1,519	81,217
Exchange realignment	1,620	202	1,415	10	96	3,343
Additions	1,751	588	10,134	289	7,368	20,130
Disposals	(79)	(119)	(13,898)	–	–	(14,096)
At 31 December 2008	30,090	4,763	45,350	1,408	8,983	90,594
DEPRECIATION AND AMORTISATION						
At 1 January 2007	23,017	1,102	36,161	397	–	60,677
Exchange realignment	1,558	46	1,049	5	–	2,658
Provided for the year	304	453	2,233	147	–	3,137
Eliminated on disposals	–	–	(35)	–	–	(35)
At 31 December 2007	24,879	1,601	39,408	549	–	66,437
Exchange realignment	1,525	68	1,038	9	–	2,640
Provided for the year	1,059	455	5,593	230	–	7,337
Eliminated on disposals	(79)	(108)	(13,898)	–	–	(14,085)
At 31 December 2008	27,384	2,016	32,141	788	–	62,329
CARRYING VALUES						
At 31 December 2008	2,706	2,747	13,209	620	8,983	28,265
At 31 December 2007	1,919	2,491	8,291	560	1,519	14,780

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	Over the term of the lease
Equipment, furniture and fixtures	5 years
Computer equipment	3 years
Motor vehicles	5 years

At 31 December 2007, net book values of computer equipment of the Group included an amount of approximately HK$504,000 (2008: Nil) in respect of assets held under finance leases, which were held under finance lease arrangement with South China International Leasing Company Limited ("South China Leasing"), a subsidiary of the ultimate holding company.

19. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2007	–
Acquisition	221,545
At 31 December 2007	221,545
Exchange realignment	13,834
Acquisition	38,369
Disposal	(1,250)
At 31 December 2008	272,498
AMORTISATION	
At 1 January 2007 and 31 December 2007	–
Charge for the year	28,491
Eliminated on disposal	(104)
At 31 December 2008	28,387
CARRYING VALUE	
At 31 December 2008	244,111
At 31 December 2007	221,545

19. INTANGIBLE ASSET *(Continued)*

The intangible asset represents the contractual rights to share a specified percentage of the box office receipts from certain cinemas in the PRC using the digital cinema equipment installed by the Group for exhibition of digital contents. It has finite useful life and is amortised on a straight line basis over the relevant contract up to 10 years.

On 9 January 2009, the Group conditionally agreed to dispose the intangible asset to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). Details of which are set out in note 44(b).

20. AVAILABLE-FOR-SALE INVESTMENT

	2008	2007
	HK$'000	*HK$'000*
Unlisted equity securities	–	117
Less: Impairment losses recognised	–	(117)
	–	–

At 31 December 2007, the investment represented 25% equity interest in Production and Partners Multimedia, SAS ("P&PM"), a company incorporated in France. The investment was measured at cost less impairment at each balance sheet date. The investment was accounted for as available-for-sale investment as in the absence of representation in the board of directors of P&PM, the Group did not have significant influence over P&PM. The investment was written-off as at 31 December 2008.

21. PREPAID LEASE PAYMENTS

	2008	2007
	HK$'000	*HK$'000*
COST		
At 1 January	**5,794**	–
Exchange realignment	**365**	–
Addition during the year	**87**	5,794
At 31 December	**6,246**	5,794
AMORTISATION		
At 1 January	**68**	–
Exchange realignment	**4**	–
Charge for the year	**125**	68
At 31 December	**197**	68
CARRYING VALUE		
At 31 December	**6,049**	5,726

The Group's prepaid lease payments comprise:

	2008	2007
Medium-term leasehold land in the PRC	**6,049**	5,726

Analysed for reporting purposes as:

	2008	2007
Current asset	**125**	114
Non-current asset	**5,924**	5,612
	6,049	5,726

22. INTEREST IN AN ASSOCIATE

	2008 **HK$'000**	2007 HK$'000
Cost of investment in an unlisted associate	**21,806**	722
Share of post-acquisition exchange reserve	**1,205**	–
Share of post-acquisition losses	**(1,155)**	(298)
	21,856	424

As at 31 December 2008 and 2007, the Group had interest in the following associate:

Name of entity	**Form of business structure**	**Country of establishment and operation**	**Proportion of nominal value of registered capital held by the Group** *(Note)*	**Principal activity**
中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Limited ("CFGDC")	Sino-foreign equity joint venture	The PRC	49%	Deployment of digital cinema network and related business

Note: The Group holds 49% of registered capital of CFGDC and holds 2 out of 5 votes (representing 40% of the votes) in the board of directors of CFGDC. Pursuant to the Articles of Association of CFGDC, over 50% vote is required to pass a resolution in relation to the financial and operating policies of CFGDC. The Directors considers the Group does not exercise any control over CFGDC but the Group can exercise significant influence over CFGDC. Hence, CFGDC is classified as an associate to the Group.

22. INTEREST IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group's associate is set out below:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**44,639**	2,837
Total liabilities	**(35)**	(1,972)
Net assets	**44,604**	865
The Group's share of net assets of an associate	**21,856**	424
Revenue	**611**	2
Loss for the year	**1,749**	608
The Group's share of loss of an associate for the year	**857**	298

23. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials, net of allowance of approximately HK$650,000 (2007: HK$135,000)	**6,345**	4,395
Finished goods, net of allowance of approximately HK$940,000 (2007: HK$597,000)	**9,337**	2,366
	15,682	6,761

24. PRODUCTION WORK IN PROGRESS

	2008 **HK$'000**	2007 HK$'000
Television series, net of allowance of Nil (2007: allowance of approximately HK$14,615,000)	**–**	–

The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As at 31 December 2008 and 2007, there was litigation in relation to the co-production of the TV Series, details of which are set out in note 47, the Directors have considered that recoverability of the production costs already incurred was uncertain and a full allowance of approximately HK$14,615,000 was made as at 31 December 2004. The amount was written-off as at 31 December 2008.

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following are details of contracts from CG production in progress at the balance sheet date:

	2008 **HK$'000**	2007 HK$'000
Contract costs incurred plus recognised profits less recognised losses	**28,574**	19,137
Less: progress billings	**(13,402)**	(19,083)
	15,172	54
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**16,935**	1,494
Amounts due to customers for contract work	**(1,763)**	(1,440)
	15,172	54

26. TRADE RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**7,761**	11,732
Less: allowance for doubtful debts	**(386)**	(230)
	7,375	11,502

The Group allows different average credit periods to its trade customers depending on the type of products or services provided. The majority of sales of goods are on letter of credit against payment, the remaining amounts are granted with average credit terms of 90 days.

The following is an aged analysis of the trade receivables, net of allowance for doubtful debts at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
Within three months	**5,003**	9,612
Three to six months	**672**	1,077
Over six months	**1,700**	813
	7,375	11,502

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

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK$2,372,000 (2007: HK$1,890,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these balances.

26. TRADE RECEIVABLES *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Three to six months	**672**	1,077
Six to nine months	**1,241**	–
Nine to twelve months	**43**	282
Over one year	**416**	531
Total	**2,372**	1,890

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**230**	1,660
Allowance for impairment losses on receivables	**386**	230
Amounts written off as uncollectible	**–**	(1,660)
Amounts recovered during the year	**(230)**	–
Balance at end of the year	**386**	230

Included in the allowance for doubtful debts as at 31 December 2008 and 2007 were individually impaired trade receivables with an aggregate balance of approximately HK$386,000 and HK$230,000, respectively, in respect of which the customers were not fully satisfied with the service provided by the CG training division and the quality of products produced by the CG creation and production division and the amounts were considered uncollectible.

27. AMOUNT DUE FROM AN ASSOCIATE

The amount was unsecured, non-interest bearing and was fully settled during the year.

28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2008 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange.

29. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.01% to 1.71% per annum (2007: approximately 1.5% per annum). Pledged bank deposits represent deposits pledged to banks to secure a purchase of raw materials agreement (classified as current asset) and a construction agreement (classified as non-current asset) entered into with independent third parties. The pledged bank deposits will be released upon the settlement of the relevant agreements. As at 31 December 2008, the deposits carry interest at 0.1% and 3.22% per annum, respectively (2007: 3.75% per annum).

30. TRADE PAYABLES

The following is an aged analysis of the trade payables at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
Within three months	**5,325**	3,853
Three to six months	**76**	344
Over six months	**1,473**	–
	6,874	4,197

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.

31. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand.

32. AMOUNTS DUE TO DIRECTORS

The amounts were unsecured, non-interest bearing and were fully settled during the year.

33. AMOUNTS DUE TO OTHER RELATED PARTIES

	Notes	**2008** **HK$'000**	2007 HK$'000
Global Digital Creations Limited ("GDCL")	*(a)*	**–**	422
Mr. Raymond Dennis Neoh	*(b)*	**–**	455
		–	877

Notes:

(a) GDCL was a former holding company of the subsidiaries comprising the Group prior to the group reorganisation completed on 31 December 2002. The amount due to GDCL was unsecured, non-interest bearing and repayable on demand.

(b) The amount due to Mr. Raymond Dennis Neoh, an ex-director and the younger brother of Mr. Anthony Francis Neoh, who was a shareholder of Shougang Grand, was non-interest bearing and was fully settled during the year. The amount was stated at amortised cost at effective interest rate of 9.8% per annum. During the year, imputed interest expense amounting to approximately HK$31,000 (2007: HK$152,000) was charged to the consolidated income statement.

34. LOAN FROM A FELLOW SUBSIDIARY

The loan is due from SCG Finance Corporation Limited, a wholly-owned subsidiary of Shougang Grand, which is unsecured, bears interest at 6% per annum. The loan as at 31 December 2007 was repaid during the year. The loan as at 31 December 2008 is repayable not later than 31 December 2010. However, before 31 December 2008, the Directors determined that the amount would be repaid in February 2009 and, accordingly it was classified as current liability in the consolidated balance sheet.

35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	–	539	–	525
Less: Future finance charges	–	(14)	–	–
Present value of lease obligations and amount due for settlement within 12 months (shown under current liabilities)	–	525	–	525

It was the Group's policy to lease certain of its computer equipment under finance leases. The lease terms ranged from two to three years. Interest rates were fixed at the contract date ranged from 6.3% to 12.3% per annum for the year. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

The Group had entered into finance lease arrangements for leasing computer equipment from South China Leasing. As at 31 December 2007, the finance lease payable to South China Leasing amounted to approximately HK$525,000 (2008: Nil). Interest expense paid to South China Leasing during the year ended 31 December 2007 in connection to the finance lease amounted to approximately HK$66,000 (2008: HK$16,000).

36. SECURED BANK BORROWING

	2008	2007
	HK$'000	*HK$'000*
Secured bank loan	**14,773**	13,898

During the year, the Group obtained a new variable rate bank loan of approximately HK$14,773,000 and repaid a fixed rate bank loan of approximately HK$13,898,000 in accordance with the repayment terms. The new bank loan raised is denominated in Renminbi, secured by pledge of a property of a subsidiary of Shougang Grand, carries interest at the People's Bank of China Renminbi Lending Rate per annum and is repayable within twelve months from the balance sheet date. The interest rate (which are also equal to contracted interest rate) in the Group's bank loan was ranged from 5.797% to 7.076% (2007: fixed rate at 6.73%) per annum. Interest is repricing every month. The proceeds were used as general working capital for the Group.

37. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2007	1,200,000,000	12,000
Increase during the year	1,200,000,000	12,000
At 31 December 2007 and 2008	2,400,000,000	24,000
Issued and fully paid:		
At 1 January 2007	800,820,000	8,008
Issue of shares *(Note)*	432,000,000	4,320
Exercise of share options	62,425,540	624
At 31 December 2007 and 2008	1,295,245,540	12,952

Note: During the year ended 31 December 2007, the Company issued shares in accordance with one subscription agreement and three placing and subscription agreements which were completed in January 2007, March 2007, May 2007 and July 2007, respectively. The proceeds were used to raise funds for the projects of the Group, to reduce borrowings and to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 26 May 2006 and 6 June 2007, and a special meeting of the Company held on 23 April 2007 and ranked pari passu with other shares in issue in all respects.

38. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 14 August 2007, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with GDC Technology, pursuant to which GDC Holdings has conditionally agreed to subscribe 53,388,178 new shares of GDC Technology at HK$2 per share (the "Subscription") at a consideration of approximately HK$106,776,000. The Subscription was completed on 2 November 2007 and the Group's equity interest in GDC Technology increased from approximately 51.1% to 62.4% thereafter.

The Group appointed Messrs Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group, to assist the Group to ascertain the fair value of the net assets of GDC Technology in relation to the acquisition of additional interest in GDC Technology at the date of completion of the Subscription. Intangible assets, mainly including customer orders and technology, have been identified with aggregate amount of fair value of approximately HK$410 million in accordance with the income approach and replacement cost approach while the fair value of other assets and liabilities of GDC Technology at that time did not have any significant difference with their respectively carrying amounts.

Accordingly, a discount on acquisition of additional interest in GDC Technology of approximately HK$1,342,000 arose during the year ended 31 December 2007, which represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology over the cost of the Subscription at the date of completion of the Subscription. In addition, it resulted in a special reserve in the amount of approximately HK$46,366,000 which represented the difference between the fair value and the carrying amount of the net assets of GDC Technology attributable to the additional interest in GDC Technology being acquired.

39. SHARE OPTION SCHEMES

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed at its special general meeting held on 18 July 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on 4 August 2013.

An option may be exercised at any time during the period to be determined and notified by the Directors to the grantee but may not be exercised after the expiry of ten years from the date of offer of that opinion. Option is fully vested at the date of grant and a consideration of HK$1 is payable upon acceptance the offer.

The exercise price is determined by the Directors, and will not be less than the higher of the nominal value of the share on the date of offer, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

The share option scheme of GDC Technology ("GDC Technology Share Option Scheme") was adopted pursuant to a resolution passed at the Company's special general meeting held on 19 September 2006 for the primary purpose of providing incentives or rewards to eligible participants for their contribution to GDC Technology, its subsidiaries and its holding companies (including intermediate and ultimate holding companies). The GDC Technology Share Option Scheme remains in force for a period of 10 years to 18 September 2016.

Details of the Scheme and GDC Technology Share Option Scheme are disclosed in the section headed "Share Option Schemes" in the Report of the Directors.

39. SHARE OPTION SCHEMES *(Continued)*

During the year ended 31 December 2007, 48,300,000 options (2008: Nil) and 19,095,000 options (2008: Nil) had been granted under the Scheme and GDC Technology Share Option Scheme to the Directors, employees and other participants, respectively.

The following table sets out the movements in the Company's share options during the year ended 31 December 2008:

				Number of share options				
Category of grantees	**Date of grant**	**Exercise period**	**Exercise price**	**Balance as at 1.1.2008**	**Transferred to other category during the year**	**Transferred from other category during the year**	**Cancelled/ lapsed during the year**	**Balance as at 31.12.2008**
Directors	6.10.2006	6.10.2006 – 5.10.2009	HK$0.30	8,809,020	(800,820)	–	–	8,008,200
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	28,170,000	(490,000)	–	–	27,680,000
Employees	22.3.2007	22.3.2007 – 21.3.2010	HK$1.07	2,300,000	–	–	–	2,300,000
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	2,262,000	–	–	–	2,262,000
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	9,900,000	–	–	–	9,900,000
Other participants	6.10.2006	6.10.2006 – 5.10.2009	HK$0.30	2,500,820	–	800,820	(800,820)	2,500,820
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	1,781,000	–	–	–	1,781,000
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	–	490,000	(490,000)	–
Totals				55,722,840	(1,290,820)	1,290,820	(1,290,820)	54,432,020

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2008:

				Number of share options		
Category of grantees	**Date of grant**	**Exercise period**	**Exercise price**	**Balance as at 1.1.2008**	**Cancelled/ lapsed during the year**	**Balance as at 31.12.2008**
Directors	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	3,333	–	3,333
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	17,445,000	(165,000)	17,280,000
Employees	5.10.2006	5.10.2006 – 4.10.2009	HK$0.145	4,563,332	(650,000)	3,913,332
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	1,650,000	–	1,650,000
Other participants	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	1,173,333	(320,000)	853,333
Totals				24,834,998	(1,135,000)	23,699,998

39. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the Company's share options during the year ended 31 December 2007:

Category of grantees	Date of grant	Exercise period	Exercise price	Number of share options: Balance as at 1.1.2007	Granted during the year	Exercised during the year	Balance as at 31.12.2007
Directors	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	42,443,460	–	(33,634,440)	8,809,020
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	28,170,000	–	28,170,000
Employees	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	14,200,000	–	(14,200,000)	–
	22.3.2007	22.3.2007 – 21.3.2010	HK$1.07	–	3,000,000	(700,000)	2,300,000
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	–	2,890,000	(628,000)	2,262,000
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	9,900,000	–	9,900,000
Other participants	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	13,204,920	–	(10,704,100)	2,500,820
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	–	4,340,000	(2,559,000)	1,781,000
Totals				69,848,380	48,300,000	(62,425,540)	55,722,840

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2007:

Category of grantees	Date of grant	Exercise period	Exercise price	Number of share options: Balance as at 1.1.2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2007
Directors	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	10,563,334	–	(10,560,001)	–	3,333
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	–	17,445,000	–	–	17,445,000
Employees	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	7,466,666	–	(7,466,666)	–	–
	5.10.2006	5.10.2006 – 4.10.2009	HK$0.145	5,313,332	–	–	(750,000)	4,563,332
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	–	1,650,000	–	–	1,650,000
Other participants	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	1,173,333	–	–	–	1,173,333
Totals				24,516,665	19,095,000	(18,026,667)	(750,000)	24,834,998

39. SHARE OPTION SCHEMES *(Continued)*

The fair value per option of approximately HK$0.58, HK$0.86, HK$0.88 and HK$0.83 for options granted on 22 March 2007, 4 April 2007, 30 October 2007 and 2 November 2007, respectively, were calculated using the Binomial Option Valuation pricing model. The inputs into the model were as follows:

	Share option grant date			
	22 March 2007	**4 April 2007**	**30 October 2007**	**2 November 2007**
Weighted average share price	HK$1.07	HK$1.52	HK$2.70	HK$2.34
Exercise price	HK$1.07	HK$1.52	HK$2.75	HK$2.00
Expected volatility	89%	97%	68%	51%
Expected life	3 years	3 years	5 years	5 years
Risk-free rate	3.88%	3.89%	3.49%	3.34%
Expected dividend yield	NIL	NIL	NIL	NIL

Expected volatility of the Company and GDC Technology were determined by using the historical volatility of the Company's share price and the share price of other companies in the similar industry, respectively. The expected life used in the model had been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK$57,402,000 for the year ended 31 December 2007 (2008: Nil) in relation to share options granted by the Company and GDC Technology.

The share options of the Company and GDC Technology granted to other participants were measured by reference to the fair value of options granted as these other participants render services similar to those as employees.

40. MAJOR NON CASH TRANSACTION

During the year ended 31 December 2007, the Group had goods sold in exchange for intangible asset in the amount of HK$132,912,000 (2008: Nil).

41. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**6,710**	6,757
In the second to fifth year inclusive	**5,413**	6,629
Over five years	**2,754**	3,289
	14,877	16,675

Operating lease payment represents rentals payable by the Group for certain of its office premises, production studios, training centers, warehouse and staff quarters. Leases for properties are negotiated for a term ranging from one to ten years with fixed rentals.

42. RETIREMENT BENEFITS SCHEME

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling approximately HK$105,000 (2007: HK$151,000) payable to the Retirement Schemes at 31 December 2008 are included in other payables and accruals. There was no forfeited contribution throughout the year (2007: Nil).

43. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provide in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment and intangible asset	**8,350**	2,928
Investment in an associate	**–**	20,954
	8,350	23,882

44. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2008, the Group has entered into the following three transactions:

(a) On 23 December 2008, GDC Holdings entered into a conditional agreement with Southern International Limited (the "Borrower"), a company incorporated in Hong Kong with limited liability, and Keen Front Group Limited, the holding company of the Borrower which is incorporated in the British Virgin Islands, whereby:

(i) GDC Holdings agreed to, and/or procure its designated companies to, make available to the Borrower and/or its designated companies a loan facility in the maximum principal amount of RMB100,000,000 (equivalent to approximately HK$113,600,000) for the purposes of satisfying the obligations of 廣州市影逸廣告有限公司("Guangzhou Yingyi"), a company established under the laws of the PRC and is indirectly owned as to 80% by the Borrower, under the agreement entered into between Guangzhou Yingyi and 廣東珠江電影文化發展有限公司in December 2008, pursuant to which Guangzhou Yingyi is the sole advertising agent for the television channel of Guangdong Television Station for a 20-year period commencing from 1 July 2009 and as working capital of Guangzhou Yingyi. The loan, which carries interest at 6% per annum and matures on 30 June 2012, is secured by a charge in favour of GDC Holdings and/or its designated companies in respect of each of (i), the entire issued capital of the Borrower; (ii) the entire equity interest in 寧波影逸信息技術有限公司, which is a wholly-owned subsidiary of the Borrower established under the laws of the PRC; (iii) 80% of the equity interest of Guangzhou Yingyi; and

(ii) the Borrower agreed to grant to GDC Holdings and/or its designated companies the exclusive rights and options to subscribe for an aggregate of up to 60% of the enlarged issued share capital of the Borrower at an exercise price to be determined with reference to the audited consolidated financial statements of the Borrower in respect of each of the 12-month periods beginning on 1 July each year from 2009 to 2012.

44. POST BALANCE SHEET EVENTS *(Continued)*

(a) *(Continued)*

As at 31 December 2008, the Group has advanced a sum of RMB60,000,000 (equivalent to approximately HK$68,182,000) to the Borrower and its designated companies. The sum was recognised as advance in the consolidated balance sheet.

The transaction was subsequently approved by shareholders of the Company at the Special General Meeting of the Company on 17 February 2009. Upon the agreement becoming effective, the advance formed part of the loan.

Details of the transaction are set out in the circular of the Company dated 23 January 2009.

(b) On 9 January 2009, the Group conditionally agreed to dispose the intangible asset which represents the contractual rights to share a specific percentage of the box office receipts from certain cinemas in the PRC using the 445 units of digital cinema equipment installed by the Group to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). The consideration should be payable by CFGC in cash to the Group in the following manner:

(i) a sum of RMB100,000,000 (equivalent to approximately HK$113,600,000) should be payable within 3 days upon the agreement became effective; and

(ii) the remaining balance of RMB123,791,600 (equivalent to approximately HK$140,627,000) shall be payable in three installments in accordance with the following schedule:

– RMB50,000,000 (equivalent to approximately HK$56,800,000) shall be payable on or before 1 June 2009;

– RMB50,000,000 (equivalent to approximately HK$56,800,000) shall be payable on or before 1 September 2009; and

– RMB23,791,600 (equivalent to approximately HK$27,027,000) shall be payable on or before 1 December 2009.

The transaction was subsequently approved by shareholders of the Company at the Special General Meeting of the Company on 17 February 2009 and part of the consideration of RMB100,000,000 (equivalent to approximately HK$113,600,000) was received from CFGC on 24 February 2009.

Details of the transaction are set out in the circular of the Company dated 23 January 2009.

The Directors are still estimating the potential impact of the transaction.

(c) On 2 March 2009, Shougang Grand approved a cap amount of HK$200 million for the construction by the Group of a building in Shenzhen, including the land cost, with a gross floor area of approximately 40,795 square meters. Details of the aforesaid arrangement are set out in the announcement of the Company dated 3 March 2009.

Up to the date of this report, the Group has entered into a contract for the mentioned construction for a consideration of approximately RMB168,800,000 (equivalent to approximately HK$191,800,000).

45. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	Notes	**2008 HK$'000**	2007 HK$'000
(i) Rental expense paid to Shougang Grand in respect of office premises	*(a)*	**1,620**	600
(ii) Interest expense paid to SCG Finance Corporation Limited (a subsidiary of Shougang Grand)	*(a)*	**1,303**	–
(iii) Interest expense paid to South China Leasing in respect of obligations under finance leases	*(b)*	**16**	66

Notes:

(a) The transaction was carried out in accordance with the relevant agreements.

(b) The transaction was carried out in accordance with relevant lease agreements. As disclosed in note 35, the Group had entered into finance lease arrangements with South China Leasing in respect of computer equipment. The relevant net book values of the computer equipment held under finance lease amounted to approximately HK$504,000 as at 31 December 2007 (2008: Nil), as disclosed in note 18.

In addition to above, the secured bank borrowing as disclosed in note 36 is secured by pledge of a property of a subsidiary of Shougang Grand.

(b) Compensation of key management personnel

The remuneration of the Directors and other members of key management during the year was as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	**11,561**	10,575
Post-employment benefits	**68**	63
Share-based payment	**–**	50,759
	11,629	61,397

The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Details of balances and transactions with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 31 to 34.

46. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued share capital/ paid up capital	Attributable equity interest of the Group directly 2008 %	directly 2007 %	indirectly 2008 %	indirectly 2007 %	Principal activities and place of operation
GDC (BVI) Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	100	–	–	Inactive
GDC Asset Management Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Investment holding
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Investment holding in Hong Kong
GDC Digital Cinema Network Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Investment holding
GDC Digital Cinema Network Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	–	Deployment of digital cinema equipment
GDC Entertainment Limited ("GDC Entertainment")	Incorporated	BVI	3,510 ordinary shares of US$1 each	–	–	–	100	Struck off
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	–	–	100	Investment holding
GDC International Limited	Incorporated	Samoa	1 ordinary share of US$1	–	–	100	100	Provision of CG animation creation and production services
GDC Management Services Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Provision of administration and management service
GDC Technology Limited	Incorporated	BVI	232,595,092 ordinary shares of HK$0.10 each	–	–	61.9	61.9	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis

46. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued share capital/ paid up capital	Attributable equity interest of the Group directly 2008 %	directly 2007 %	indirectly 2008 %	indirectly 2007 %	Principal activities and place of operation
GDC Technology China Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	61.9	61.9	Inactive
GDC Technology (Hong Kong) Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	61.9	61.9	Provision of computer solutions for digital content distribution and exhibitions
GDC Technology Pte. Ltd.	Incorporated	Singapore	900,000 ordinary shares of S$1.00 each	–	–	61.9	61.9	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology (USA), LLC	Incorporated	United States	US$1,000	–	–	61.9	61.9	Provision of computer solutions for digital content distribution and exhibitions
Shougang GDC Media Holding Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	100	Investment holding
環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited	Incorporated	PRC	US$1,300,000	–	–	100	100	Provision of CG and animation training in the PRC

46. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued share capital/ paid up capital	Attributable equity interest of the Group directly 2008 %	directly 2007 %	indirectly 2008 %	indirectly 2007 %	Principal activities and place of operation
環球數碼媒體科技研究(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited	Incorporated	PRC	US$35,353,896	–	–	100	100	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
深圳市環球數碼影視文化有限公司	Incorporated	PRC	RMB3,000,000	–	–	100	100	Animation Investment
深圳市環球數碼科技有限公司	Incorporated	PRC	RMB3,000,000	–	–	61.9	61.9	Provision of computer solutions for digital content distribution and exhibitions
重慶環球數碼動畫有限公司	Incorporated	PRC	RMB5,500,000	–	–	100	–	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
深圳市南山區環球數碼培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC
上海環球數碼職業技能培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC
北京科創環球數碼技術有限公司	Incorporated	PRC	RMB200,000	–	–	61.9	–	Provision of computer solutions for digital content distribution and exhibitions

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

47. LITIGATION

On 14 May 2003, GDC Entertainment, a wholly-owned subsidiary of the Company, entered into a co-production agreement (the "Co-production Agreement") with Westwood Audiovisual and Multimedia Consultants, Inc. ("WAMC") and P&PM in relation to the TV Series.

In about November 2004, P&PM and WAMC commenced proceedings against GDC Entertainment in the Court of Commerce of Angouleme (France) alleging breaches on the part of GDC Entertainment of the Co-production Agreement.

In relation to the French proceedings, the Group's French legal advisers had advised that the enforcement of P&PM's and WAMC's claims should only be limited to the assets of GDC Entertainment.

Further, arbitration proceedings were commenced by GDC Entertainment against P&PM and WAMC in Hong Kong by way of a notice of arbitration dated 16 June 2005 issued pursuant to the Co-production Agreement. In the arbitration, issues had been raised by GDC Entertainment as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same claim of damages from P&PM and WAMC. Pleadings have not yet been exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006. Award of the arbitrator was published on the Issue of Jurisdiction on 23 March 2006 dismissing the application, and made an order for costs in GDC Entertainment's favour in respect of the application. Since then, there has been no further step taken by the parties. GDC Entertainment has written to the arbitrator seeking directions for the further conduct of the arbitration, including the service of pleadings in the arbitration. GDC Entertainment is still waiting to hear from the arbitrator as to how she would like to proceed with the arbitration.

The Directors are of the opinions that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the consolidated financial statements.

Effective from 1 May 2008, GDC Entertainment has been struck off but can be restored at any time up to ten years after the strike-off date.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	**2008** ***HK$'000***
Revenue	47,987	32,195	54,920	246,125	**120,180**
(Loss) profit from operations	(125,657)	(68,530)	(17,165)	28,868	**(74,106)**
Changes in fair value of held-for-trading investments	–	–	–	–	**(939)**
Finance costs	(5,545)	(7,675)	(13,080)	(4,002)	**(2,428)**
Share of loss of an associate	–	–	–	(298)	**(857)**
(Loss) profit before tax	(131,202)	(76,205)	(30,245)	24,568	**(78,330)**
Income tax (expense) credit	(25)	(151)	–	(3,099)	**2,183**
(Loss) profit for the year	(131,227)	(76,356)	(30,245)	21,469	**(76,147)**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	**2008** ***HK$'000***
Total assets	69,060	34,319	26,501	528,477	**499,058**
Total liabilities	122,621	162,531	181,210	93,286	**121,106**
Net (liabilities) assets	(53,561)	(128,212)	(154,709)	435,191	**377,952**