# Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

*(Stock Code : 8271)*

ANNUAL REPORT 2009

* For identification purpose only

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# CONTENT

# 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.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Cao Zhong *(Chairman)*
Mr. Chen Zheng *(Managing Director)*
Mr. Jin Guo Ping *(Deputy Managing Director)*

### Non-executive Director

Mr. Leung Shun Sang, Tony

### Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

## EXECUTIVE COMMITTEE

Mr. Cao Zhong *(Chairman)*
Mr. Chen Zheng
Mr. Jin Guo Ping

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPLIANCE OFFICER

Mr. Chen Zheng

## COMPANY SECRETARY

Mr. Chiu Ming Kin

## AUTHORIZED REPRESENTATIVES

Mr. Chen Zheng
Mr. Chiu Ming Kin

## 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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## STOCK CODE

8271

## WEBSITE ADDRESS

www.gdc-world.com

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Cao Zhong**, aged 50, 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. 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 as a chairman and an executive director of Fushan International Energy Group Limited ("Fushan") in March 2009 and re-designated as a vice-chairman and managing director in January 2010. From May 2007 to October 2009, he was also appointed an executive director of APAC Resources Limited ("APAC") and was re-designated as the chairman of APAC. He is also a director of each of Wheeling Holdings Limited and Upper Nice Assets Ltd. ("Upper Nice"), 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.

**Mr. Chen Zheng**, aged 50, 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, Mr. Chen has extensive experience in investing business and corporate management.

**Mr. Jin Guo Ping**, aged 51, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed Executive Director and the Vice President 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.

## NON-EXECUTIVE DIRECTOR

**Mr. Leung Shun Sang**, **Tony**, aged 67. 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 is a non-executive director of each of Shougang Grand, Shougang International, Shougang Technology, Shougang Century and Fushan. 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.

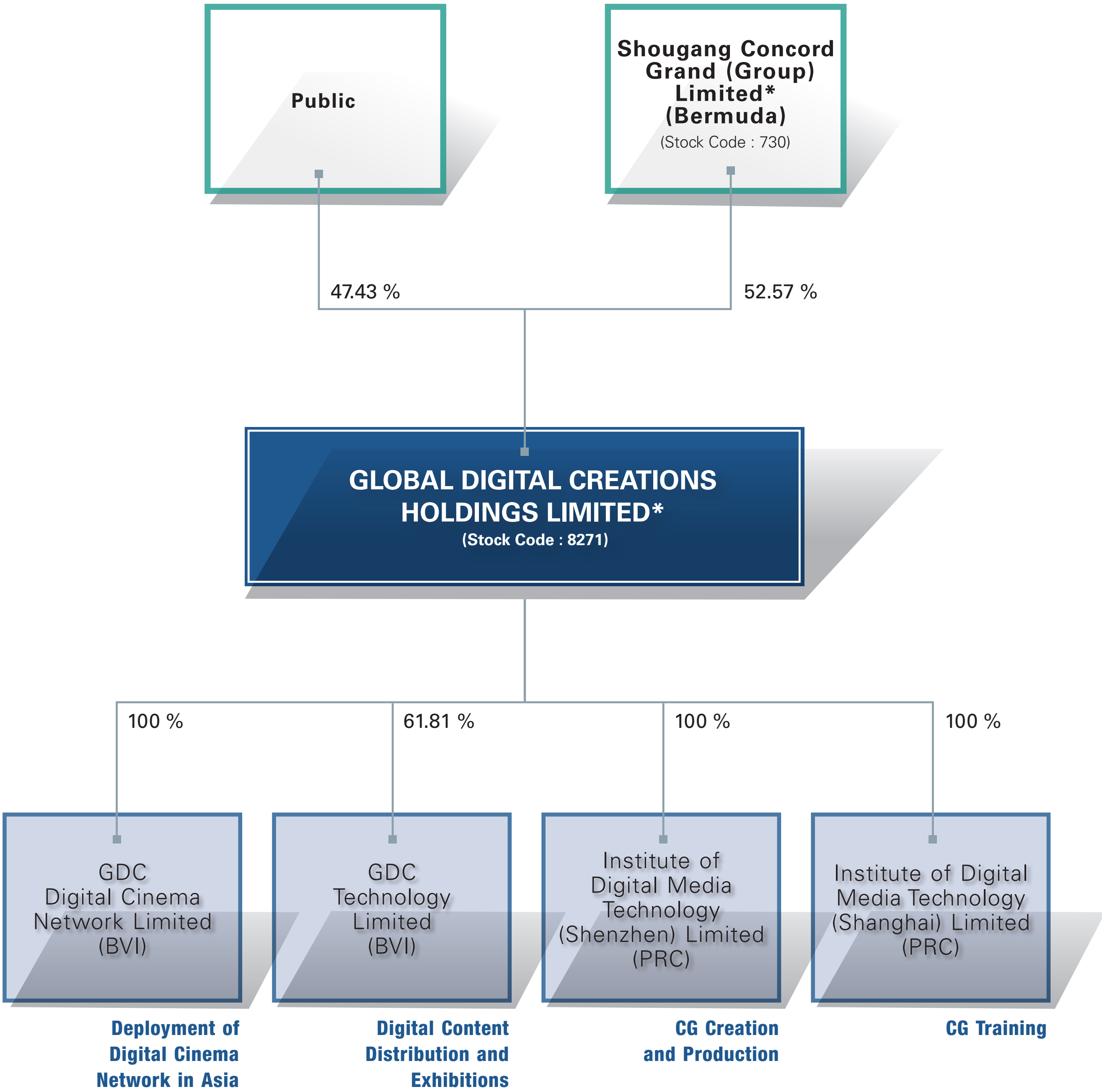
## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Kwong Che Keung**, **Gordon**, aged 60. 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 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, China Chengtong Development Group Limited, Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited and CITIC 1616 Holdings Limited. Mr. Kwong also served as an independent non-executive director of New World Mobile Holdings Limited until 1 February 2007 and as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. until 3 June 2009.

**Mr. Hui Hung**, **Stephen**, aged 52. 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.

**Prof. Japhet Sebastian Law**, aged 58. Prof. 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. Prof. 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, Prof. 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. Prof. 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 organisations in Hong Kong and overseas. From July 2003 to February 2006, Prof. Law had also acted as an Independent Non-executive Director of the Company. He currently serves as independent non-executive directors of Tianjin Port Development Holdings Limited, Beijing Capital International Airport Co., Ltd and Binhai Investment Company Limited. He was also served as an independent non-executive director of First China Financial Holdings Limited until 1 October 2008.

# MAIN OPERATIONAL STRUCTURE




* Listed company


# CHAIRMAN'S STATEMENT

The year 2009 started with uncertainty and turbulence in global financial markets, but the markets became stabilised as a consequence of the continued and timely actions by governments and central banks, global markets and major world economies continued their recoveries in the second half of the year 2009. As economic conditions in Asia continue to improve, private consumption rebounded strongly, especially in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), which is poised to be the strong engine for global economic growth and recovery.

After overcoming a very difficult operating environment in the first half of the year 2009, the Group achieved encouraging improvement in the second half of the year 2009. The PRC demonstrated robust growth in the world's cinema industry with advanced digital equipment, over 68% of our revenue came from the PRC, this rebound made us benefited from this upcoming opportunities and recorded amazing growth in revenue by 219% as compared to the year 2008. More significantly, all our business divisions, digital content distribution and exhibitions, deployment of digital cinema network in Asia, computer graphic ("CG") creation and production, and CG training, reported profit for this year.

The recent success of 3D feature films drive the quick and great demand of installing digital equipment in cinemas for exhibiting digital contents, digitalisation become more popular. It is expected that the digital conversion will be completed in the coming 5 years and this brings ample business opportunities to digital content distribution and exhibitions division. To capture the potential opportunities, we not only continue to strengthen our production facilities and improve our production quality, but also advance our technology through research and development to provide superior digital delivery and display solutions to our customers.

Besides, our cooperation with some major Hollywood studios for digital cinema deployment in Asia (except the PRC) under virtual print fee ("VPF") arrangement signals our on-going commitment to Asian exhibitors as a trusted partner in digital conversion and enables both distributors and exhibitors to reap substantial benefits of digital cinema: high quality non-degradable prints, new programming opportunities such as premium digital 3D films, alternative content and live satellite events, vastly reduced print, production and logistics costs, and better protection against piracy. This shows that we have started a lead in the market and gained international recognition and reputation in digital content development industry, which strengthening the competitive edges to capture this growing market.

In CG creation and production division, production of several projects that release successfully in foreign animation channels makes us win recognition in the industry, many customers express the desire for having long-term and multi-project relationship with us. We continue to improve our financial control, production efficiency, and enhance our service quality and reliability to provide reliable, cost effective, high quality services to our customers.

For the year 2009, we also diversified our CG business from production to distribution and other related business, we released a Belgium 3D animation film "Fly Me to the Moon" in over 300 digital cinema multiplexes across the PRC. Besides, we are more actively engaged in co-production and distribution deals with the world leading studios to accumulate more IP asset for long term financial upside. At the same time, because of growing in 3D film market worldwide and animation industry in the PRC, we also plan to produce more 3D animation projects in the future.

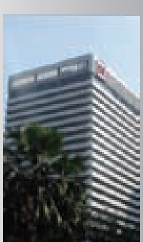
Our CG training division maintains its industry reputation as the most comprehensive and most effective CG professional training programme. For the year 2009, this division recorded steady growth in revenue and segment result of approximately 32% and 104%, respectively, achieved nearly 100% employment of the graduates, and our students and graduates received many awards in the CG business. This is mainly resulted from wider and more effective recruiting methods, professionalism of our training staff, and high quality and practical training materials.

## *10 years of Brilliance of Digital Content Distribution and Exhibitions Division*

### 1999

**September**

Incorporated on 29 December 1999 in Hong Kong. Office located at the Hutchison House



### 2000

**September**

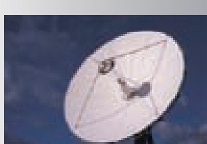
First to develop a software-based (non-chipset based) digital cinema server

### 2001

**September**

**Beijing and Shanghai, China**

Performance a satellite transmission demonstration of Colombia Picture "Final Fantasy" by using GDC digital cinema equipment




### 2002

**April**

**Shanghai, China**

First to install digital cinema thereafter in China

**May**

Introduced new MPEG2 4:2:2 DSR™ Digital Film Server with high bit-rate recorder

**August**

**Beijing, China**

Showcased the DSR™ Digital Film Server with MPEG2 4:2:2 at BIRTV

### 2003

**February**

First to introduce the new 2K resolution DSR™ Digital Film Agile Encoder and DSR™ Server

**March**

**Las Vegas, USA**

Launched the new DSR™ Z Server at ShoWest and demonstrated full range of DSR™ solutions

**India**

Partnered with Adlabs Film Limited to win a multimillion dollar e-cinema project

**July**

**USA**

First installation in USA at AMC Santa Monica Theatre

### 2004

**May**

**Singapore**

Installed real-time central server (Theatre Management System) in the world's first fully digital multiplex

**December**

**China**

Deployed 100 units of GDC DSR™ servers

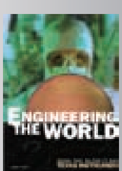
Furthermore, with the support of the local municipal government, we are constructing our headquarters building at Shenzhen High-tech Industrial Park and the construction is scheduled to be completed in second half of the year 2010. Upon completion, we can expand our research, development and production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

With regard to our good performance in the year 2009, it is proofed that we are on the right track of our business strategy through solid execution. We are confident to become one of the best digital media company worldwide, as we are facing high growth potential for digital content distribution and exhibitions division, deployment of digital cinema network in Asia 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*

March
Texas Instruments attested GDC for being the first Digital Cinema installation in China




June
First server company to implement and deploy MXF packaging format

October
Launched the innovative SDM4000 DSR™ Display Maestro Server

November
Launched DSR™ Network Operating Center software

**2005**

March
Introduced MXF for the SA1000 DSR™ JPEG2000 Upgrade Kit for servers

June
**Korea**
Expanded market share in South Korea

**Europe**
Installed the DSR™ Network Operations Center

**2006**

March
Received investment from Li Ka-Shing –the world's 11th wealthiest person according to Forbes 2008

Introduced the world's first integrated solution – the DCI2000 Digital Cinema Integrated Projection System to ease the digitalisation of cinemas

Unveiled the new SA2100 DSR™ Digital Film Server

December
Marked the 1000th installation worldwide

**2007**

August
Received ISO9001:2000 Certification

October
GDC Servers included in AccessIT (now known as Cinedigm)'s Approved Digital Cinema Equipment List

Forged partnership with RealD to deliver leading-edge 3D digital cinema experience

FIPS 140-2 Level 3 certification recommended for JPG2K Board in GDC Servers

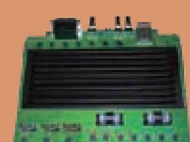
**2008**

March
**Las Vegas, USA**
Introduced new data-drivers-swapping features for SA2100A servers at ShoWest

April
**USA**
Clinched a major US contract – to install 99 servers into Premiere Cinemas

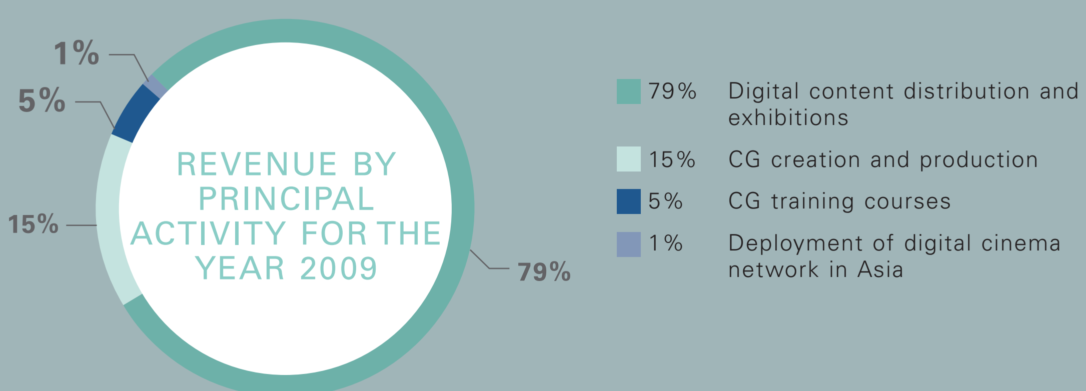
November
Server installation broke the 2000 unit mark

December
showcased the GDC Integrated Media Block with Barco Series II Projector at CineAsia



**2009**


# FINANCIAL HIGHLIGHTS



# MANAGEMENT DISCUSSION AND ANALYSIS

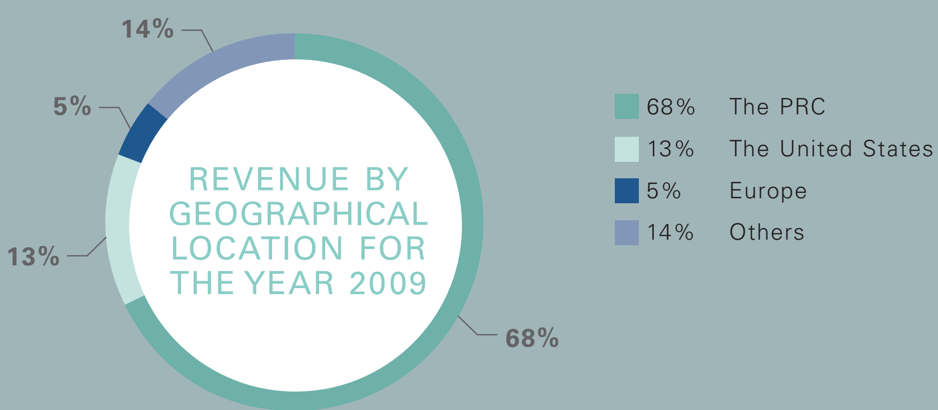
## FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2009 is approximately HK$383,117,000, when comparing with that of approximately HK$120,180,000 for the year 2008, representing an increase of approximately 219%. The increase is mainly attributable to an increase in revenue from digital content distribution and exhibitions division and computer graphic ("CG") creation and production division by HK$242,177,000 and HK$11,446,000 respectively.

Cost of sales for the year ended 31 December 2009 amounts to approximately HK$280,180,000, when comparing with that of approximately HK$106,042,000 for the year 2008, representing an increase of approximately 164%. The increase is mainly due to increase in costs of goods sold and CG production costs in line with increase in the respective revenue.

The Group records a gross profit of approximately HK$102,937,000 for the year ended 31 December 2009, representing a gross profit margin of approximately 27%. Comparing with the gross profit margin of approximately 12% for the year 2008, the improvement is mainly due to decrease in amortisation of intangible asset in the amount of cost of sales by approximately HK$27,858,000.

Other income for the year ended 31 December 2009 amounts to approximately HK$15,575,000 (2008: HK$3,066,000), representing an increase of approximately 408%. The increase is mainly due to increase in interest income and government grants by approximately HK$4,076,000 and HK$3,095,000, respectively, and the amount for this year includes a gain of approximately HK$2,543,000 on disposal of intangible asset to China Film Group Corporation ("CFGC") upon termination of the cooperation with 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) and the relevant imputed interest income derived from the deferred consideration of approximately HK$3,127,000.



## FINANCIAL OVERVIEW *(Continued)*

Administrative expenses for the year ended 31 December 2009 amounts to approximately HK$72,257,000 (2008: HK$60,073,000), representing an increase of approximately 20%. The increase is a result of more research and development costs incurred by digital content distribution and exhibitions division of approximately HK$5,200,000 and the growth in the operations of the Group during this year.

Other expense of approximately HK$22,202,000 for the year ended 31 December 2008 represented a one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC during that year.

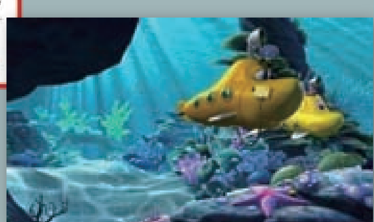
Overall, the Group records profit of approximately HK$14,419,000 for the year ended 31 December 2009 attributable to owners of the Company, when comparing with that loss of approximately HK$71,688,000 for the year 2008.

## BUSINESS REVIEW AND OUTLOOK

### Digital content distribution and exhibitions

For the year ended 31 December 2009, revenue from digital content distribution and exhibitions division reports an approximate four-fold increment to approximately HK$302,371,000, when compared with that for the year 2008. This significant growth is attributed to more digital cinema equipment sold to customers in the United States, the PRC and other Asian territories, such as South Korea. The Group also explores new markets, including Australia, Europe, Japan and Russia, and has successful received new orders from customers in these regions.

## 2009 AWARDS

### APRIL 2009

"Happy Little Submarines" received Best Animated 3D Effects Prize of the 2009 "Monkey-King Awards" at the 5th China International Cartoon & Animation Festival.

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

### Digital content distribution and exhibitions *(Continued)*

In order to best satisfy the customers' needs and offer an all-round digital cinema solution, the Group incurs more research and development costs to enhance its technologies and sharpen its competitive edge in the digital cinema business. In April 2009, the Group completed the integration of a 3D EQ technology to its digital cinema server, which can provide film distributors with significant savings in millions by adopting Digital Cinema Initiative ("DCI") requirement of a single 3D DCP format for digital cinema distribution. In December 2009, the Group announced a new product, digital cinema Integrated Media Block ("IMB"), with one of the leading digital cinema projector manufacturer that can be seamlessly integrated into a brand new generation of projector, DLP Cinema® Series 2 projector. Recently, the Group also demonstrates its fifth generation digital cinema server which is capable of working with the DLP Cinema® Series 2 projector and begins shipping in the year 2010.

The Group continues to promote its products through participating in international trade exhibitions and high profile demonstration projects, and develop products that aim at meeting more than the standard DCI specifications. The ultimate goal of the Group is to develop the best multimedia solutions and sell its digital cinema equipment for large scale public playback in cinema multiplexes and museums.

At present, the cinema industry is in the tipping point of overwhelmingly adopting digital cinema, a completely digital medium for the distribution and exhibition of feature films. In late September 2009, the major exhibitors in the United States announced that they have secured funding to finance the digitalisation of 14,000 cinema screens. The success of several 3D feature films during this year is also an important driver for speeding up the digitalisation. It is expected that the conversion to digital cinemas will be completed in the coming 5 years.

JUNE 2009

"The Bridge" received "Animation Project Pitching – Excellent Project" in the 15th Shanghai TV Festival

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

### Digital content distribution and exhibitions *(Continued)*

To capture the potential opportunities, the Group continues to strengthen its production facilities and improve its production quality in Shenzhen and Hong Kong in preparation of mass production of its products. Its facility in Hong Kong also achieves ISO 9001:2000 certification during this year following the Shenzhen production facility.

### Deployment of digital cinema network in Asia

In Asia (except the PRC), the Group has reached separate non-exclusive virtual print fee ("VPF") agreements with five out of six major Hollywood studios for digital cinema deployment. These studios are committed to supply Asian exhibitors with feature film content digitally, as well as to provide financial assistance for the hardware cost of DCI compliant digital cinema equipment deployed. The Group has signed up with two major exhibitors in Hong Kong to participate in the VPF arrangement and endeavors to sign up with more in the coming future.

### CG creation and production

Despite adverse environment under the global economy downturn, increase in CG production orders makes CG creation and production division recording revenue growth by approximately 25% to approximately HK$57,012,000 for the year ended 31 December 2009 when comparing with that for the year 2008. During this year, there are seven CG production projects in progress, including films, DVD and television series, with customers coming from North America, Europe and Australia. Four of the projects are completed during this year while the other three are expected to be completed in the first quarter of the year 2010. However, due to change in production schedule of and some adjustments to an individual project, production costs increase accordingly, to deal with this uncertainty, the Group makes some allowance during this year, thus the profit efficiency of this division is lower than that for the year 2008, even though overall it is still profitable.

## 2009 AWARDS


### JULY 2009

IDMT Shenzhen was rated among the "Top 100 in the China's Emerging Service Provider" in the China Council for International Investment Promotion 2009

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

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

Besides, two of the seven projects are co-production with large European and American animation content production and distribution companies, in which the Group has sole distribution right in the Chinese-speaking region and can share certain profit in the global distribution. These partners actively work with the Group and add "Chinese element" to these global projects.

In addition to nearly concluding production of several series two of successful projects with existing customers, the Group is actively looking for new customers, including world leading entertainment brands, for animated television series and films. Some new projects are under negotiations, one of these has commenced production in January 2010 while another two are in the testing stage.

In addition, by providing technical support and joint distribution with CFGC, the Group releases a Belgium 3D animation film "Fly Me to the Moon" in over 300 digital cinema multiplexes across the PRC during this year. The success of distribution of this film in the PRC results in continuous cooperation of another film between the parties, and attracting several international companies approaching the Group for production of 3D films, co-production, distribution and other business.

To deal with business growth and increase in market share, the Group's subsidiary in Chongqing commences its production during this year and completes production of a DVD and a television series with another project in progress. The production centres in Shenzhen and Chongqing both use advanced network and IT technology to establish an integrated operation platform so that employees, facilities and management system at these two locations can interflow together. This multi-site CG production increases the Group's ability in the CG business to expand the capacity and price adjustment, allowing the Group to react promptly to changes in the market.

## AUGUST 2009

IDMT Chongqing's website design was award Adobe Creative Suite's "Network Group Competition of Excellence"

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

### CG training

CG training division continues to pursue, as a core component of its strategy, towards professionalism and strengthening of training materials, it continuously records nearly 100% employment of the graduates, it is a bright torch in the financial crisis and receives more support from the PRC government. This division is able to achieve an "Upstream" result even under the financial crisis and records steady growth in revenue and segment result of approximately 32% and 104%, respectively, for the year ended 31 December 2009 when comparing with that for the year 2008.

After upgrading the existing training courses for the knowledge of CG production, on-line and other games, the Group organises new professional training programmes in other areas, including after effects, virtual reality and case studies for animation, in response to the market needs. Besides, the Group continues to co-operate with prominent high schools in the PRC for organising "Skill and Qualification" training programme to their students in achieving "One Course, Several Certificates", and to train up their practical skills to get ready for work immediately after graduated.

In addition to the Group's training centres in Shanghai, Shenzhen, Wuxi and Chongqing, the Group set up a new direct operation training site in Guangzhou during this year and plans to set up one more site in the North to cover all-round in the PRC. At the same time, the Group will further develop its training network to those areas in the PRC with developed animation industry.

## 2009 AWARDS

### SEPTEMBER 2009

"Grab Ass" received "First Prize" and "Best Director" awards in the 2nd Weihai China International Cartoon Contest 2009, and nominated for the 6th Golden Panda Best Animated Short Film and the 4th China Jilin Best Animated Short Animation Competition

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group has bank balances and cash of approximately HK$166.6 million (2008: HK$72.2 million) and pledged bank deposits of approximately HK$2.0 million (2008: HK$3.5 million), which are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase is mainly from net proceeds from disposal of intangible asset of approximately HK$249.1 million and advance from an associate of approximately HK$20.9 million, netting off with purchase of property, plant and equipment of approximately HK$98.7 million, investment in a convertible loan receivable of approximately HK$45.5 million, and repayment of loan from a fellow subsidiary of HK$30.0 million.

As at 31 December 2009, the Group's borrowing amounts to approximately HK$10.2 million, which is repayable after twelve months from 31 December 2009. The bank borrowing is denominated in Renminbi and it bears interest at market rate.

Gearing ratio (calculated as borrowing divided by equity attributable to owners of the Company) as at 31 December 2009 is approximately 3% (2008: 15%). As at 31 December 2009, the Group has current ratio of approximately 2.8 (2008: 1.1) based on current assets of approximately HK$397.5 million and current liabilities of approximately HK$143.3 million. The improvement in the Group's leverage is mainly attributable to net proceeds received from disposal of intangible asset.

## NOVEMBER 2009

GDC was rated among the "China Top 100 in the Creative and High Growth Industry" in the China Creative Industry Annual Award 2009

## CAPITAL STRUCTURE

The equity attributable to owners of the Company amounts to approximately HK$329.5 million as at 31 December 2009 (2008: HK$305.0 million). The increase is mainly due to profit for the year ended 31 December 2009 attributable to owners of the Company of approximately HK$14.4 million and transfer of approximately HK$10.1 million from share options reserve of a subsidiary upon cancellation of those share options during this year.

## MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group has no material acquisitions, disposals and significant investment during the year ended 31 December 2009.

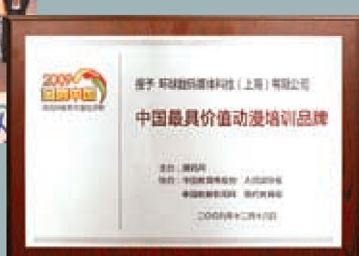
## CHARGE ON ASSETS

As at 31 December 2009, the Group has the following charge on assets:

(i) The Group's construction in progress and prepaid lease payments with an aggregate carrying value of approximately HK$97.4 million are pledged to bank to secure for bank borrowing with outstanding amount of approximately HK$10.2 million and undrawn borrowing facilities of approximately HK$160.2 million; and

(ii) The Group pledges deposit amounted to approximately HK$2.0 million to a bank to secure a construction agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the agreement.

# 2009 AWARDS




## DECEMBER 2009

IDMT Shanghai received "The Best Valuable Training Brand Name in China 2009" from QQ.com

## FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in United States dollars and Renminbi, and incurs costs mainly 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 2009, the Group has no significant exposure under foreign exchange.

## CONTINGENT LIABILITIES

Saved as disclosed in note 43 to the consolidated financial statements about litigation proceeding, the Group has no significant contingent liabilities as at 31 December 2009.

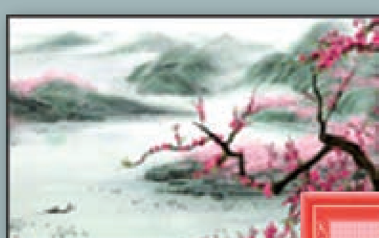
## EMPLOYEES

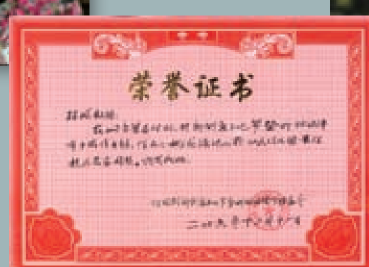
As at 31 December 2009, the Group employs 652 (2008: 633) full time employees (excluding those under the payroll of an associate of the Group). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group.

During the year ended 31 December 2009, the Company and its subsidiaries has not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

DECEMBER 2009

"The Legend of Shangri-la" was awarded "The Best Technology and Application" in the Guilin Cultural Festival






# 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.

## CODE ON 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") throughout the year ended 31 December 2009.

## BOARD OF DIRECTORS

### Composition

As at 31 December 2009, the Board comprises seven members including three Executive Directors, namely, Mr. Cao Zhong, Mr. Chen Zheng and Mr. Jin Guo Ping; one Non-executive Director, Mr. Leung Shun Sang, Tony and three Independent non-executive Directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Cao Zhong. The Board has 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 Board has a balance of skills and experience appropriate for the requirements of the businesses of the Group.

Ms. Lu Yi, Gloria resigned as the Executive Director of the Company on 5 September 2009.

The Non-executive Director and the Independent 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:

- making 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.

To the best knowledge of the Company, the Directors have no financial, business, family or other material/relevant relationships with each other.

## BOARD OF DIRECTORS *(Continued)*

### Role and function

The Board is responsible for overall strategy formulation and performance monitoring of the Group. It delegates day-to-day operations of the Group to the Executive Committee 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 meetings

The Board meets at least four times 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 (the "Bye-laws").

The company secretary assists the Chairman in setting 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.

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.

The Board held five Board meetings during the year ended 31 December 2009. Directors have made active contribution to the affairs of the Group and the 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. The attendance records of the Board meetings held in the year 2009 are set out below:–

## BOARD OF DIRECTORS *(Continued)*

### Board meetings *(Continued)*

| | **Attended/Eligible to attend** |
|---|---|
| ***Executive Directors*** | |
| Mr. Cao Zhong *(Chairman)* | 2/5 |
| Mr. Chen Zheng | 4/5 |
| Mr. Jin Guo Ping | 4/5 |
| Ms. Lu Yi, Gloria *(resigned on 5 September 2009)* | 3/3 |
| ***Non-executive Director*** | |
| Mr. Leung Shun Sang, Tony | 5/5 |
| ***Independent non-executive Directors*** | |
| Mr. Kwong Che Keung, Gordon | 5/5 |
| Mr. Hui Hung, Stephen | 5/5 |
| Prof. Japhet Sebastian Law | 5/5 |

### 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 in discharging their duties to the Company.

The Board is supplied with relevant information by the 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 supplied by the management, they have the right of separate and independent access to the Group's 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 appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next 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.

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

## BOARD OF DIRECTORS *(Continued)*

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

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 namely, Mr. Kwong Che Keung, Gordon has appropriate professional qualifications or accounting or related financial management expertise.

### 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 strategy 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 COMMITTEES

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

## BOARD COMMITTEES *(Continued)*

### Executive Committee

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

During the year ended 31 December 2009, the members of the Executive Committee were as follows:

- Mr. Cao Zhong *(Chairman)*
- Mr. Chen Zheng
- Mr. Jin Guo Ping
- Ms. Lu Yi, Gloria *(resigned on 5 September 2009)*

Ms. Lu Yi, Gloria resigned as an Executive Director on 5 September 2009 and cease to be a member of the Executive Committee with effect from the same date.

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. For the year ended 31 December 2009, 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 published on the Company's website.

The Audit Committee consists of three Independent non-executive Directors of the Company, namely, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Kwong Che Keung, Gordon. None of the members of the Audit Committee are former partners of the auditor of the Company.

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 external 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.

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The Audit Committee held four meetings in the year 2009 with management and the Company's internal Audit Manager, two of which with external auditor, amongst other things, reviewing:

- the Group's significant internal control;
- the final results of the Group for the financial year ended 31 December 2008;
- the quarterly results of the Group for the three months ended 31 March 2009;
- the interim results of the Group for the six months ended 30 June 2009; and
- the quarterly results of the Group for the nine months ended 30 September 2009.

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.

The attendance records of the Audit Committee meetings held in the year 2009 are set out below:

| | **Attended/Eligible to attend** |
|---|---|
| Mr. Kwong Che Keung, Gordon *(Chairman)* | 4/4 |
| Mr. Hui Hung, Stephen | 4/4 |
| Prof. Japhet Sebastian Law | 4/4 |

### 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 published on the Company's website.

The Nomination Committee consists of five Directors of the Company, namely, Mr. Cao Zhong, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Cao Zhong. The Independent non-executive Directors of the Company constitute the majority of the committee.

## BOARD COMMITTEES *(Continued)*

### Nomination Committee *(Continued)*

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.

For the year ended 31 December 2009, one meeting of the Nomination Committee was held for reviewing the structure of the Board of the Company.

The attendance records of the Nomination Committee meeting held in the year 2009 are set out follows:

| | **Attended/Eligible to attend** |
|---|---|
| Mr. Cao Zhong *(Chairman)* | 1/1 |
| Mr. Leung Shun Sang, Tony *(Vice Chairman)* | 1/1 |
| Mr. Kwong Che Keung, Gordon | 1/1 |
| Mr. Hui Hung, Stephen | 1/1 |
| Prof. Japhet Sebastian Law | 1/1 |

## BOARD COMMITTEES *(Continued)*

### 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 published on the Company's website.

The Remuneration Committee consists of five Directors of the Company, namely, Mr. Leung Shun Sang, Tony, Mr. Cao Zhong, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Leung Shun Sang, Tony. The Independent non-executive Directors of the Company constitute the majority of the committee.

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 the Non-executive Directors and Independent 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 of the Board about their proposals relating to the remuneration of the Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain external independent professional advice if it considers necessary.

The remuneration policies applicable to the Directors and management of the Group are performance-based and in line with market practice. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

For the year ended 31 December 2009, one meeting of the Remuneration Committee was held for, amongst other things:

- reviewing the remuneration and terms of services contract of the Executive Directors of the Company;
- determining the bonuses of the Executive Directors of the Company for the year 2009; and
- making recommendations to the Board on the directors' fees of the Non-executive Director and the Independent non-executive Directors of the Company for the year 2010.

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

The attendance records of the Remuneration Committee meeting held in the year 2009 are set out below:

| | **Attended/Eligible to attend** |
|---|---|
| Mr. Leung Shun Sang, Tony *(Chairman)* | 1/1 |
| Mr. Cao Zhong *(Vice Chairman)* | 1/1 |
| Mr. Kwong Che Keung, Gordon | 1/1 |
| Mr. Hui Hung, Stephen | 1/1 |
| Prof. Japhet Sebastian Law | 1/1 |

## 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 monitoring, 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 organisation structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organisation structure, a reporting system has been developed under which the division head of each principal business unit will reports to the Executive Committee directly.

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.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews the monthly management reports 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 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.

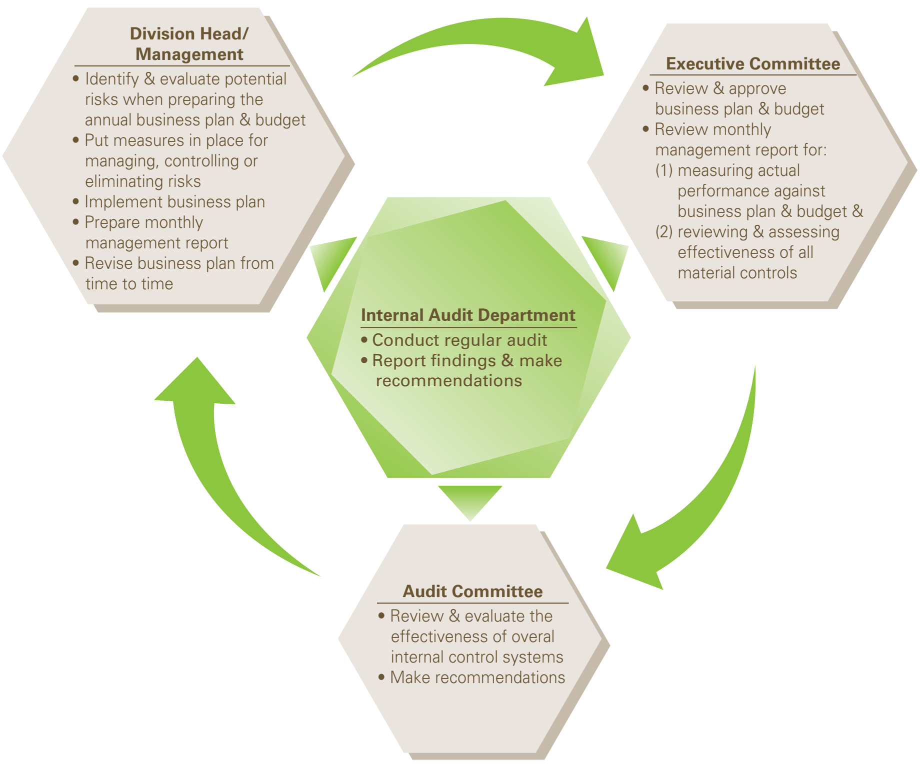
## INTERNAL CONTROL *(Continued)*

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 in fulfilling its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the internal control systems.

The Company has set up an Internal Audit Department which assists the Executive Committee and the Audit Committee in discharging their internal control duties. The Internal Audit Department, which is independent of 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 ended 31 December 2009, 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 division head of each principle business unit have submitted representation letters to the Managing Director, in which they made representations as to the compliance by themselves and their subordinates of key internal control systems for the year 2009. In turn, the Managing Director has submitted the representation letter for the Group to the Audit Committee. The requirement for making representation letters by the management can strengthen individual responsibility for corporate governance and controls.

To comply with the code provision C.2.2 of the Code on Corporate Governance Practices (Appendix 15 of the GEM Listing Rules) which became effective on 1 January 2009, the Board had also included a 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 for the year 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 2009.

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 ended 31 December 2009, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| **Services rendered** | **Fee paid/payable** *HK$'000* |
|---|---|
| Statutory audit services | 700 |
| Non-statutory audit services: | |
| Review on interim financial report | 227 |
| Special audit services | 300 |
| | 1,227 |

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

The general meetings 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, where appropriate, are available to answer shareholders' queries at the meetings.

## SHAREHOLDERS' RIGHTS

The detailed procedures for demanding and conducting a poll were explained by the chairman at general meetings. The results of the poll were published on the websites of Stock Exchange and the Company, respectively.

All notices of general meetings despatched by the Company to its shareholders for meetings were 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 were 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 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and associate are set out in notes 42 and 22 to the consolidated financial statements, respectively.

## RESULTS

The results of the Group for the year ended 31 December 2009 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 (2008: Nil).

## FIVE YEARS FINANCIAL SUMMARY

A summary of the published consolidated results and 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 35 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

Donations made by the Group during the year amounted to approximately HK$700,000.

## DIRECTORS

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

Mr. Cao Zhong
Mr. Chen Zheng
Mr. Jin Guo Ping
Ms. Lu Yi, Gloria *(resigned on 5 September 2009)*
Mr. Leung Shun Sang, Tony#
Mr. Kwong Che Keung, Gordon*
Mr. Hui Hung, Stephen*
Prof. Japhet Sebastian Law*

# *Non-executive Director*
* *Independent non-executive Directors*

In accordance with clause 87(2) of the Company's bye-laws, Mr. Cao Zhong, Mr. Leung Shun Sang, Tony and Mr. Hui Hung, Stephen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the Independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers that all of the Independent non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out in the Biographical Details of Directors section on pages 4 to 6.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Cao Zhong and Mr. Chen Zheng has entered into a service contract with a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008 unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term; and Mr. Jin Guo Ping has entered into a service contract with a wholly-owned subsidiary of the Company for a term of two years commencing on 1 January 2009, unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

Each of Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Mr. Hui Hung, Stephen has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2008 unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term. Prof. Japhet Sebastian Law, has entered into an engagement letter with the Company commencing from 1 September 2008 to 31 December 2010 unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

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.

## EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee, and approved by the Board having regard to their experience, duties, performance and the prevailing market conditions. No Directors are involved in deciding their own remuneration.

The Group offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, Executive Directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

The Group has adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in section headed "Share Option Schemes" below and note 36 to the consolidated financial statements.

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

As at 31 December 2009, the Directors and the chief executive of the Company or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or Rule 5.46 of the GEM Listing Rules:

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

| | | Number of shares/underlying shares held in the Company | | | |
|---|---|---|---|---|---|
| **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 the Company as at 31.12.2009** |
| Mr. Cao Zhong | Beneficial owner | 26,942,200 | 4,900,000 | 31,842,200 | 2.46% |
| Mr. Chen Zheng | Beneficial owner | 8,718,200 | 4,900,000 | 13,618,200 | 1.05% |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 20,008,200 | 4,900,000 | 24,908,200 | 1.92% |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 800,820 | 490,000 | 1,290,820 | 0.10% |
| Mr. 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.*

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

(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 31.12.2009 |
|---|---|---|---|---|---|
| Mr. Cao Zhong | Beneficial owner | – | 22,868,000 | 22,868,000 | 1.99% |
| Mr. Chen Zheng | Beneficial owner | – | 18,368,000 | 18,368,000 | 1.60% |
| Mr. 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.*

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

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in GDC Technology: Interests in shares | Interests under equity derivatives* | Total interests | Total interests as to % to the issued share capital of GDC Technology as at 31.12.2009 |
|---|---|---|---|---|---|
| Mr. Cao Zhong | Beneficial owner | 8,533,334 | 1,650,000 | 10,183,334 | 4.37% |
| Mr. Chen Zheng | Beneficial owner | 8,533,334 | 1,650,000 | 10,183,334 | 4.37% |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 2,130,000 | 1,650,000 | 3,780,000 | 1.62% |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 1,706,667 | 165,000 | 1,871,667 | 0.80% |
| Mr. Hui Hung, Stephen | Beneficial owner | – | 165,000 | 165,000 | 0.07% |

* *The relevant interests are unlisted physically settled options granted pursuant to GDC Technology's share option scheme adopted on 19 September 2006 (the "GDC Technology Share Option Scheme"). Upon exercise of the share options in accordance with the GDC Technology Scheme, ordinary shares of HK$0.10 each in the share capital of GDC Technology 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.*

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

Save as disclosed above, at the end of the reporting period, 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the 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 |
|---|---|---|---|
| Mr. Cao Zhong | Shougang Grand# | Cultural recreation content provision∆ | Vice chairman and managing director |
| Mr. Chen Zheng | Shougang Grand# | Cultural recreation content provision∆ | Managing director of operations |
| Mr. 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 2009.*

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES *(Continued)*

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.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons or companies (other than the Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO:

### Long positions in the shares of the Company

| Name of shareholder | Capacity in which interests are held | Number of shares of held in the Company | Interests as to % to the total issued share capital of the Company as at 31.12.2009 |
|---|---|---|---|
| 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 2009) 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 2009) 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 37.4% by Wheeling and its interest was included in the interests held by Wheeling.*

## SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at 31 December 2009, 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 in the shares and underlying shares of the Company as recorded in the register required kept by the Company under Section 336 of the SFO.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to 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, a share option scheme of the Company (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.

## SHARE OPTION SCHEMES *(Continued)*

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

As at the date of this annual report, the total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 28,803,000 which represents approximately 2.22% 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. 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.

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.

## SHARE OPTION SCHEMES *(Continued)*

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

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** | | | | | | | | |
| Mr. Cao Zhong | 4,900,000 | – | – | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Mr. Chen Zheng | 4,900,000 | – | – | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Mr. Jin Guo Ping | 8,008,200 | – | – | (8,008,200)[1] | – | 06.10.2006 | 06.10.2006 –05.10.2009 | HK$0.30 |
| Ms. Lu Yi, Gloria | 12,000,000 | (12,000,000)[2] | – | – | – | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Mr. Leung Shun Sang, Tony | 4,900,000 | – | – | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Mr. Kwong Che Keung, Gordon | 490,000 | – | – | – | 490,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Mr. Hui Hung, Stephen | 490,000 | – | – | – | 490,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| | 35,688,200 | (12,000,000) | – | (8,008,200) | 15,680,000 | | | |
| **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 | – | – | (2,500,820)[1] | – | 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 |
| | – | – | 12,000,000[2] | (12,000,000)[2] | – | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| | 4,281,820 | – | 12,000,000 | (14,500,820) | 1,781,000 | | | |
| | 54,432,020 | (12,000,000) | 12,000,000 | (22,509,020) | 31,923,000 | | | |

*Note:*

1. Such share options were lapsed on 6 October 2009 according to the Scheme.

2. The share options were held by Ms. Lu Yi, Gloria who resigned as a Director of the Company during the year and such share options were re-classified from the category of "Directors 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 5 December 2009.

## SHARE OPTION SCHEMES *(Continued)*

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

Each of the Company and Shougang Grand has adopted the share option scheme of GDC Technology ("GDC Technology Share Option Scheme") by a shareholders' resolution passed at its special general meeting held on 19 September 2006.

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

Under the GDC Technology Share Option Scheme, the directors of GDC Technology 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 Technology Group and any advisors, consultants, suppliers, customers and agents to the GDC Technology Group and such other persons who the directors of GDC Technology consider, in their sole discretion, will contribute or have contributed to the GDC Technology Group, share options to subscribe for shares of GDC Technology.

As at the date of this annual report, the total number of shares of GDC Technology which may be issued upon exercise of all outstanding share options granted under the GDC Technology Share Option Scheme is 6,930,000 which represents approximately 2.97% of the issued share capital of GDC Technology. As at the date of this annual report, the maximum number of shares of GDC Technology available for issue upon exercise of all share options which may be granted under the GDC Technology Scheme is 9,023,024, representing approximately 3.87% of the issued share capital of GDC Technology. The total number of shares of GDC Technology issued and to be issued upon the exercise of share options granted under the GDC Technology 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 Technology 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 Technology 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 Technology at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Technology Share Option 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 Technology 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 Technology *(Continued)*

The exercise price in relation to each share option will be determined by the directors of GDC Technology at their absolute discretion and shall not be less than the nominal value of a share of GDC Technology 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 Technology Share Option 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 or cancelled in accordance with the terms of the GDC Technology Share Option Scheme during the year. Details of movements in the share options under the GDC Technology Share Option Scheme during the year are as follows:

| | Options to subscribe for shares of GDC Technology | | | | | | |
|---|---|---|---|---|---|---|---|
| **Category or name of grantees** | **At the beginning of the year** | **Exercised 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** | | | | | | | |
| Mr. Cao Zhong | 1,650,000 | – | – | 1,650,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| Mr. Chen Zheng | 1,650,000 | – | – | 1,650,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| Ms. Lu Yi, Gloria | 12,000,000[1] | – | (12,000,000)[2] | – | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| Mr. Leung Shun Sang, Tony | 3,333[3] | – | (3,333)[4] | – | 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 | – | (3,333) | 1,650,000 | | | |
| Mr. Kwong Che Keung, Gordon | 165,000 | – | – | 165,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| Mr. Hui Hung, Stephen | 165,000 | – | – | 165,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| | 17,283,333 | – | (12,003,333) | 5,280,000 | | | |
| **Employees of the Group** | 3,913,332 | (130,000) | (3,783,332)[5] | – | 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 |
| | 5,563,332 | (130,000) | (3,783,332) | 1,650,000 | | | |
| **Other participants** | 853,333 | (320,000) | (533,333)[4] | – | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK$0.145 |
| | 23,699,998 | (450,000) | (16,319,998) | 6,930,000 | | | |

## SHARE OPTION SCHEMES *(Continued)*

### (b) Share option scheme of a subsidiary of the Company – GDC Technology *(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 Technology then in issue and was approved by the shareholders of the Company and Shougang Grand on 30 October 2007 respectively.

2. The share options were held by Ms. Lu Yi, Gloria who resigned as a Director of the Company during the year and such share options were lapsed on 5 September 2009.

3. 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 Technology then in issue and was approved by the shareholders of the Company and Shougang Grand on 19 September 2006 respectively.

4. Such share options were lapsed on 29 September 2009 according to the GDC Technology Share Option Scheme.

5. 1,361,666 share options were lapsed upon two grantees ceased to be employees of the Group during the year and the remaining 2,421,666 share options were lapsed on 5 October 2009 according to the GDC Technology Share Option Scheme.

## 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.

## DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company's reserves available for distribution amounted to approximately HK$282,400,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 40% of the revenue for the year and the largest customer included therein amounted to approximately 13%. Purchases from the Group's five largest suppliers accounted for approximately 61% of the cost of sales for the year and the largest supplier included therein amounted to approximately 31%. 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 Technology and Shougang Grand on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Technology 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 Technology was a non-wholly owned subsidiary of the Company in which the Company was interested as to approximately 56% of its issued share capital. Accordingly, transactions between GDC Technology 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 ended 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.

The Independent non-executive Directors of the Company have received the above continuing connected transactions and confirm that, the transactions have been enter into:

(1) in the ordinary and usual course of business of the relevant members of the Group;

(2) on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

As far as the transactions set out in note 41(a) to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in points (i) to (iv) 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 22 to 33 of this annual report.

## EVENT AFTER THE REPORTING PERIOD

Details of significant event occurring after the reporting period are set out in note 40 to the consolidated financial statements.

## AUDITOR

The accounts have been audited by Messrs. Deloitte Touche Tohmatsu who retire, and, being eligible, offer themselves for re-appointment.

By Order of the Board
**Cao Zhong**
*Chairman*

24 March 2010

# 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 statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

## AUDITOR'S RESPONSIBILITY *(CONTINUED)*

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 2009 and of the Group's profit 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
24 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For The Year Ended 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **383,117** | 120,180 |
| Cost of sales | | **(280,180)** | (106,042) |
| Gross profit | | **102,937** | 14,138 |
| Other income | 10 | **15,575** | 3,066 |
| Distribution costs and selling expenses | | **(7,913)** | (9,035) |
| Administrative expenses | | **(72,257)** | (60,073) |
| Changes in fair value of held-for-trading investments | | **859** | (939) |
| Finance costs | 11 | **(809)** | (2,428) |
| Share of loss of an associate | | **(287)** | (857) |
| Loss on dilution of interest in a subsidiary | 12 | **(165)** | – |
| Other expense | 13 | **–** | (22,202) |
| Profit (loss) before tax | | **37,940** | (78,330) |
| Income tax (expense) credit | 14 | **(6,163)** | 2,183 |
| Profit (loss) for the year | 15 | **31,777** | (76,147) |
| Other comprehensive (expense) income: | | | |
| Exchange differences on translation of foreign operations | | **(54)** | 18,908 |
| Total comprehensive income (expense) for the year | | **31,723** | (57,239) |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **14,419** | (71,688) |
| Minority interests | | **17,358** | (4,459) |
| | | **31,777** | (76,147) |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **14,385** | (53,155) |
| Minority interests | | **17,338** | (4,084) |
| | | **31,723** | (57,239) |
| | | ***HK cents*** | *HK cents* |
| Earnings (loss) per share | 17 | | |
| Basic and diluted | | **1.11** | (5.53) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **115,389** | 28,265 |
| Intangible asset | 19 | **–** | 244,111 |
| Available-for-sale investment | 20 | **568** | – |
| Prepaid lease payments | 21 | **5,799** | 5,924 |
| Interest in an associate | 22 | **21,569** | 21,856 |
| Other receivables | 23 | **20,657** | – |
| Pledged bank deposit | 29 | **1,956** | 665 |
| Advance | 24 | **–** | 68,182 |
| | | **165,938** | 369,003 |
| **Current assets** | | | |
| Inventories | 25 | **34,947** | 15,682 |
| Amounts due from customers for contract work | 26 | **5,795** | 16,935 |
| Trade receivables | 27 | **41,338** | 7,375 |
| Prepayments, deposits and other receivables | 23 | **27,070** | 13,436 |
| Prepaid lease payments | 21 | **125** | 125 |
| Held-for-trading investments | 28 | **2,398** | 1,539 |
| Convertible loan receivable | 24 | **119,255** | – |
| Pledged bank deposit | 29 | **–** | 2,808 |
| Bank balances and cash | 29 | **166,604** | 72,155 |
| | | **397,532** | 130,055 |
| **Current liabilities** | | | |
| Income received in advance | | **35,748** | 26,792 |
| Amounts due to customers for contract work | 26 | **366** | 1,763 |
| Trade payables | 30 | **31,781** | 6,874 |
| Other payables and accruals | | **47,160** | 26,622 |
| Amounts due to fellow subsidiaries | 31 | **1,194** | 13,315 |
| Amount due to an associate | 32 | **20,874** | – |
| Tax liabilities | | **6,215** | 967 |
| Loan from a fellow subsidiary – due within one year | 33 | **–** | 30,000 |
| Secured bank borrowing – due within one year | 34 | **–** | 14,773 |
| | | **143,338** | 121,106 |
| **Net current assets** | | **254,194** | 8,949 |
| **Total assets less current liabilities** | | **420,132** | 377,952 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Issued capital | 35 | **12,952** | 12,952 |
| Retained earnings | | **61,289** | 31,075 |
| Other reserves | | **255,232** | 261,004 |
| Equity attributable to owners of the Company | | **329,473** | 305,031 |
| Share options reserve of a subsidiary | | **5,775** | 15,838 |
| Minority interests | | **74,657** | 57,083 |
| **Total equity** | | **409,905** | 377,952 |
| **Non-current liability** | | | |
| Secured bank borrowing – due after one year | 34 | **10,227** | – |
| | | **420,132** | 377,952 |

The consolidated financial statements on pages 50 to 113 were approved and authorised for issue by the Board of Directors on 24 March 2010 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 2009*

| | Issued capital | Share premium reserve | Capital contribution reserve | Contributed surplus reserve | Statutory reserve | Share options reserve | Exchange reserve | Special reserve | (Deficit) retained earnings | Attributable to owners of the Company | Share options reserve of a subsidiary | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | *(Note a)* | *(Note b)* | *(Note c)* | | | *(Note d)* | | | | | |
| At 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 | – | – | – | – | – | – | 18,533 | – | – | 18,533 | – | 375 | 18,908 |
| Loss for the year | – | – | – | – | – | – | – | – | (71,688) | (71,688) | – | (4,459) | (76,147) |
| Total comprehensive 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 reserve *(Note e)* | – | (589,670) | – | 589,670 | – | – | – | – | – | – | – | – | – |
| Elimination of deficit (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 and 1 January 2009 | 12,952 | – | 445 | 245,881 | 680 | 38,765 | 21,599 | (46,366) | 31,075 | 305,031 | 15,838 | 57,083 | 377,952 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (34) | – | – | (34) | – | (20) | (54) |
| Profit for the year | – | – | – | – | – | – | – | – | 14,419 | 14,419 | – | 17,358 | 31,777 |
| Total comprehensive (expense) income for the year | – | – | – | – | – | – | (34) | – | 14,419 | 14,385 | – | 17,338 | 31,723 |
| Sub-total | 12,952 | – | 445 | 245,881 | 680 | 38,765 | 21,565 | (46,366) | 45,494 | 319,416 | 15,838 | 74,421 | 409,675 |
| Exercise of share option of a subsidiary | – | – | – | – | – | – | – | – | – | – | (6) | 236 | 230 |
| Cancellation of share options granted | – | – | – | – | – | (11,420) | – | – | 11,420 | – | – | – | – |
| Cancellation of share options granted by a subsidiary | – | – | – | – | – | – | – | – | 10,057 | 10,057 | (10,057) | – | – |
| Transfer to statutory reserve | – | – | – | – | 5,682 | – | – | – | (5,682) | – | – | – | – |
| At 31 December 2009 | 12,952 | – | 445 | 245,881 | 6,362 | 27,345 | 21,565 | (46,366) | 61,289 | 329,473 | 5,775 | 74,657 | 409,905 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For The Year Ended 31 December 2009*

*Notes:*

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

(b) Contributed surplus reserve represents the difference between the nominal value of issued capital of the Company and the aggregate amount of nominal value of issued 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), the subsidiaries of the Company 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' boards of directors.

(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 statement of comprehensive income upon the disposal of the subsidiary.

(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 reserve of the Company as at 31 December 2007 had been reduced with the credit arising therefrom being transferred to the contributed surplus reserve 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 reserve of the Company had been applied to eliminate the deficit of the Company as at 31 December 2007. The Company had complied with the requirement of section 46(2) of The Companies Act 1981 of Bermuda (as amended). Details of which were set out in the circular of the Company dated 9 May 2008.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For The Year Ended 31 December 2009*

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit (loss) before tax | **37,940** | (78,330) |
| Adjustments for: | | |
| Depreciation | **6,017** | 4,865 |
| Allowance for inventories | **3,581** | 1,031 |
| Finance costs | **809** | 2,428 |
| Amortisation of intangible asset | **633** | 28,491 |
| Share of loss of an associate | **287** | 857 |
| Loss on dilution of interest in a subsidiary | **165** | – |
| Amortisation of prepaid lease payments | **125** | 125 |
| Loss on disposal of property, plant and equipment | **24** | 11 |
| Allowance for doubtful debts | **–** | 386 |
| Interest income | **(9,440)** | (2,237) |
| Gain on disposal of intangible asset | **(2,543)** | (104) |
| Changes in fair value of held-for-trading investments | **(859)** | 939 |
| Operating cashflow before movements in working capital | **36,739** | (41,538) |
| Increase in inventories | **(22,846)** | (9,952) |
| Decrease (increase) in amounts due from customers for contract work | **13,719** | (13,549) |
| (Increase) decrease in trade receivables | **(33,972)** | 3,827 |
| Increase in prepayments, deposits and other receivables | **(34,291)** | (2,002) |
| Increase in held-for-trading investments | **–** | (2,478) |
| Increase in income received in advance | **8,956** | 16,813 |
| Increase in amounts due to customers for contract work | **1,182** | 338 |
| Increase in trade payables | **24,907** | 2,677 |
| Increase in other payables and accruals | **20,538** | 7,906 |
| Decrease in amounts due to fellow subsidiaries | **(12,121)** | (4,141) |
| Decrease in amounts due to directors | **–** | (2,912) |
| Cash from (used in) operations | **2,811** | (45,011) |
| Income tax paid | **(915)** | – |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | **1,896** | (45,011) |
| INVESTING ACTIVITIES | | |
| Proceeds from disposal of intangible asset, net of transaction costs | **249,148** | 1,250 |
| Decrease in pledged bank deposits | **1,517** | 4,327 |
| Interest received | **694** | 2,237 |
| Proceeds from disposal of property, plant and equipment | **358** | – |
| Repayment from an associate | **–** | 1,053 |
| Purchase of property, plant and equipment | **(98,681)** | (20,130) |
| Investment in a convertible note receivable | **(45,454)** | – |
| Investment in available-for-sale investment | **(568)** | – |
| Acquisition of intangible asset | **–** | (548) |
| Advance to a third party | **–** | (68,182) |
| Investment in an associate | **–** | (21,084) |
| Prepaid lease payments | **–** | (87) |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | **107,014** | (101,164) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For The Year Ended 31 December 2009*

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Repayment of loan from a fellow subsidiary | (30,000) | (5,000) |
| Repayment of bank loans | (29,546) | (13,898) |
| Interest paid | (809) | (1,094) |
| Repayment of advance from other related parties | – | (908) |
| Repayment of obligations under finance leases | – | (525) |
| New bank loans raised | 25,000 | 14,773 |
| Advance from an associate | 20,874 | – |
| Proceeds from issue of shares of a subsidiary upon exercise of its share options | 65 | – |
| Advance received from a fellow subsidiary | – | 13,600 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (14,416) | 6,948 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 94,494 | (139,227) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 72,155 | 210,377 |
| Effect of foreign exchange rate changes | (45) | 1,005 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 166,604 | 72,155 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 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 principal subsidiaries are set out in note 42.

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 ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, Amendments to Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Except as described below that affecting presentation and disclosure only, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements for the current or prior accounting periods.

### HKAS 1 (revised in 2007) "Presentation of Financial Statements"

HKAS 1 (revised in 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

### HKFRS 8 "Operating Segments"

HKFRS 8 expands the disclosures required in relation to the Group's reportable segments. The application of the HKFRS 8 has not resulted in a redesignation of the Group's reportable segments or remeasurement of segment profit or loss (see note 8).

### Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 "Financial Instruments: Disclosures")

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

The Group has not early applied the following new and revised Standards, Amendments to Standards or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination 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.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

The directors of the Company (the "Director") anticipate that the application of the other new and revised Standards, Amendments to Standards or Interpretations will have no material impact on the consolidated financial statements.

## 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 statement of comprehensive income 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations *(Continued)*

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.

### 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

Deposits received from sale of goods or services to be provided prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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.

Technical service income is recognised when the service is provided.

Revenue from provision of assembly and integration services in connection with deployment of digital cinema equipment under Virtual Print Fee ("VPF") Arrangement (details of which are set out in note 23) is recognised when the services have been rendered and the equipment are installed and ready for their intended use.

Revenue from exhibition of motion pictures is recognised when the motion pictures are exhibited.

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

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.

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 on initial recognition.

*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 end of the reporting period, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

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

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 statement of financial position, 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 statement of financial position 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.

Construction in progress includes property in the course of construction for its own use purposes. 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.

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 statement of comprehensive income 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 statement of comprehensive income on a straight line basis over the term of the relevant lease.

*The Group as lessee*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing *(Continued)*

*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.

### 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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the exchange reserve). Such exchange differences are reclassified from equity to profit or loss in the period in which the foreign operation is disposed of.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as income received in advance in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 end of the reporting period.

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 statement of financial position 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits 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 end of the reporting period. The measurement of deferred tax reflects the tax consequences that would flow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in the profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is recognised in other comprehensive income or directly in equity, respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 statement of comprehensive income 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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Inventories

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position 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 to the net carrying amount on initial recognition.

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

*Financial assets at fair value through profit or loss*

Financial asset at FVTPL represents financial asset 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets (Continued)***

*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 the end of the reporting period subsequent to initial recognition, loans and receivables (including convertible loan receivable, trade receivables, other receivables, 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 the end of the reporting period 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 the end of the reporting period. 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.

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 credit period given 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets (Continued)***

*Impairment of financial assets (Continued)*

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.

*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 (including all fee 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

*Other financial liabilities*

Other financial liabilities including trade payables, other payables, amounts due to fellow subsidiaries, amount due to an associate, loan from a fellow subsidiary and secured bank borrowing 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

*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 other comprehensive income is recognised in the consolidated statement of comprehensive income.

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 statement of comprehensive income.

### 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 the end of the reporting period, 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 reserve. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 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, 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 the end of the reporting period, 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Provision for litigation*

The management of the Group monitors any litigation against the Group closely. Provision for litigation is made based on the opinion of the Group's legal adviser on the possible outcome and liability of the Group. As at 31 December 2009 and 2008, there is no foreseeable financial impact to the Group and no provision for litigation has been made. Details are set out in note 43.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

*Estimated impairment of intangible asset*

At 31 December 2008, the Group's carrying amount of intangible asset was approximately HK$244,111,000. In determining whether there was objective evidence of impairment loss, the Directors took 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 was 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 were less than expected, an impairment loss might arise.

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

## 5. FINANCIAL INSTRUMENTS

### 5a. Categories of financial instruments

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| **Financial assets** | | |
| Financial assets at FVTPL | **2,398** | 1,539 |
| Loans and receivables (including cash and cash equivalents) | **365,590** | 152,733 |
| Available-for-sale investment | **568** | – |
| **Financial liabilities** | | |
| Amortised cost | **83,884** | 80,084 |

### 5b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, convertible loan receivable, advance, trade receivables, other receivables, held-for-trading investments, pledged bank deposits, bank balances and cash, trade payables, other payables, amounts due to fellow subsidiaries, amount due to an associate, loan from a fellow subsidiary and secured bank borrowing. 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 mainly in United States dollars and Renminbi, and incurs costs mainly in United States dollars, 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 2009 and 2008, the Group has no significant exposure under foreign exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

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

***Market risk (Continued)***

*(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 other receivables as disclosed in note 23, certain variable rate bank balances as disclosed in note 29 and secured variable-rate bank borrowing as disclosed in note 34, which carry interest at prevailing market interest rates and the People's Bank of China Renminbi Lending Rate. The Directors consider that the cash flow interest rate risks on other receivables are not significant.

The Group's cash flow interest 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.

The Group's fair value interest rate risk related primarily to its fixed rate convertible loan receivable as at 31 December 2009 as disclosed in note 24, and fixed-rate loan from a fellow subsidiary as at 31 December 2008 as disclosed in note 33. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management would consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for variable-rate borrowing and bank balances at the end of the reporting period. A 100 basis points (2008: 100 basis points) increase or decrease and 30 basis points (2008: 100 basis points) increase are used for variable-rate borrowing and bank balances, respectively and represents management's assessment of the reasonably possible change in interest rate. As at 31 December 2009, bank balances carry interest at market rates which range from 0.01% to 0.36% per annum, the Directors consider that the Group's exposure to the decrease in interest rates for bank balances is not significant and therefore the decrease in interest rate is not included in the sensitivity analysis.

Variable-rate borrowings

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit after tax for the year would decrease/increase by approximately HK$102,000 (2008: increase/decrease in loss after tax by approximately HK$145,000).

Variable-rate bank balances

If interest rates had been 30 basis points (2008: 100 basis points) higher and all other variables were held constant, the Group's profit after tax for the year would increase by approximately HK$52,000 (2008: decrease in loss after tax by approximately HK$187,000).

There has been no change to the Group's exposure to interest rate risks or manner in which it manages and measure.

## 5. FINANCIAL INSTRUMENTS *(Continued)*

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

*Market risk (Continued)*

*(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 end of the reporting period.

If the prices of the respective equity instruments had been 5% higher/lower, profit after tax for the year ended 31 December 2009 would increase/decrease by approximately HK$120,000 (2008: decrease/increase in loss after tax of approximately HK$77,000) as a result of the changes in fair value of held-for-trading investments.

*Credit risk*

As at 31 December 2009 and 2008, 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 statement of financial position.

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 the end of the reporting period 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.

The Group's credit risk is also attributable to convertible loan receivable due from a third party as disclosed in note 24. The management of the Group reviews the recoverability of the amount at the end of the reporting period 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. Furthermore, the Group received approximately HK$113.6 million from the settlement of part of the convertible loan receivable subsequent to the end of the reporting period.

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 People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), which accounted for approximately 72% (2008: mainly in the United States accounted for approximately 25%) of the total trade receivable as at 31 December 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

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

*Credit risk (Continued)*

The Group has a concentration of credit risk as approximately 30% (2008: approximately 21%) and approximately 66% (2008: approximately 60%) 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 convertible loan receivable due from a single counterparty as disclosed in note 24.

*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 based on the agreed repayments term. 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. To the extent that interest flows are floating rate, the undiscounted cash flows are estimated by using interest rate at the end of the reporting period.

*Liquidity tables*

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total undiscounted cash flows as at 31.12.2009 | Carrying amount at 31.12.2009 |
|---|---|---|---|---|---|---|---|
| | % | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 13,273 | 16,692 | 1,816 | – | 31,781 | 31,781 |
| Other payables | – | 601 | 2,634 | 16,573 | – | 19,808 | 19,808 |
| Amounts due to fellow subsidiaries | – | 1,194 | – | – | – | 1,194 | 1,194 |
| Amount due to an associate | – | – | – | 20,874 | – | 20,874 | 20,874 |
| Secured bank borrowing | 6 | 51 | 152 | 404 | 12,256 | 12,863 | 10,227 |
| | | 15,119 | 19,478 | 39,667 | 12,256 | 86,520 | 83,884 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

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

***Liquidity risk (Continued)***

*Liquidity tables (Continued)*

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | Total undiscounted cash flows as at 31.12.2008 | Carrying amount at 31.12.2008 |
|---|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *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 | 150 | 30,150 | – | 30,300 | 30,000 |
| Secured bank borrowing | 7 | 86 | 14,990 | – | 15,076 | 14,773 |
| | | 22,658 | 47,724 | 10,305 | 80,687 | 80,084 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### 5c. Fair value *(Continued)*

***Fair value measurements recognised in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | 2009 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Financial assets at FVTPL** | | | | |
| Held-for-trading investments | **2,398** | **–** | **–** | **2,398** |

There were no transfers between Level 1 and 2 in the current year.

## 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 and secured bank borrowing disclosed in notes 33 and 34, 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 2009 and 2008 were as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total debt [(1)] | **10,227** | 44,773 |
| Equity [(2)] | **409,905** | 377,952 |
| Total debt to equity ratio (%) | **2** | 12 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 6. CAPITAL RISK MANAGEMENT *(Continued)*

The Directors consider that the Group maintains a healthy capital ratio as at 31 December 2009 and 2008 as the total debt to equity ratio is at a relatively low level.

*Notes:*

(1) Total debt equals to sum of loan from a fellow subsidiary and secured bank borrowing.

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

## 7. REVENUE

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

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Sales of goods | **286,932** | 51,984 |
| Revenue from contracts for CG creation and production | **55,558** | 42,542 |
| Training fee | **19,031** | 14,420 |
| Technical service income | **13,526** | 2,652 |
| Revenue from provision of assembly and integration services | **4,703** | – |
| Revenue from exhibition of motion pictures | **1,454** | 3,024 |
| Rental income from equipment leasing | **1,343** | 40 |
| Royalty income from share of box office receipts | **570** | 5,518 |
| | **383,117** | 120,180 |

## 8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. However, the segment information reported to the CODM, being the Chief Executive Officer of the Company, for the purposes of resource allocation and assessment of performance was the same as the business segment information reported externally under HKAS 14 in prior years. Such segment information is analysed on the basis of the Group's operating divisions as below:

- CG creation and production – CG production and exhibition of motion pictures

- Digital content distribution and exhibitions – (i) sales of digital cinema equipment; (ii) provision of technical service; (iii) leasing of digital cinema equipment; and (iv) holding of contractual rights to share box office receipts (note 19)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 8. SEGMENT INFORMATION *(Continued)*

- Deployment of digital cinema network in Asia (a new division in 2009) – provision of assembly and integration services

- CG training courses – provision of CG and animation training

As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments and measurement of segment profit or loss has not changed.

### Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable segment:

*For the year ended 31 December 2009*

| | CG creation and production HK$'000 | Digital content distribution and exhibitions HK$'000 | Deployment of digital cinema network in Asia HK$'000 | CG training courses HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Revenue | 57,012 | 302,371 | 4,703 | 19,031 | 383,117 |
| Segment result | 739 | 46,225 | 845 | 5,117 | 52,926 |
| Investment revenue | | | | | 5,643 |
| Central administration costs | | | | | (20,227) |
| Changes in fair value of held-for-trading investments | | | | | 859 |
| Finance costs | | | | | (809) |
| Share of loss of an associate | | | | | (287) |
| Loss on dilution of interest in a subsidiary | | | | | (165) |
| Profit before tax | | | | | 37,940 |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results *(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$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Revenue | 45,566 | 60,194 | 14,420 | 120,180 |
| Segment result | 5,121 | (66,711) | 2,510 | (59,080) |
| Investment revenue | | | | 2,244 |
| Central administration costs | | | | (17,270) |
| Changes in fair value of held-for-trading investments | | | | (939) |
| Finance costs | | | | (2,428) |
| Share of loss of an associate | | | | (857) |
| Loss before tax | | | | (78,330) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned or loss incurred by each segment without allocation of investment revenue, central administration costs, changes in fair value of held-for-trading investments, finance costs, share of loss of an associate and loss on dilution of interest in a subsidiary. This is the measure reported to the Chief Executive Officer of the Company for the purposes of resources allocation and assessment of segment performance.

All of the segment revenue reported above is from external customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 8. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities

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

*At 31 December 2009*

| | CG creation and production *HK$'000* | Digital content distribution and exhibitions *HK$'000* | Deployment of digital cinema network in Asia *HK$'000* | CG training courses *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|
| Assets | | | | | |
| Segment assets | 192,276 | 174,443 | 26,063 | 22,694 | 415,476 |
| Interest in an associate | | | | | 21,569 |
| Convertible loan receivable | | | | | 119,255 |
| Corporate assets | | | | | 7,170 |
| Consolidated total assets | | | | | 563,470 |
| Liabilities | | | | | |
| Segment liabilities | 15,874 | 85,814 | – | 11,238 | 112,926 |
| Amounts due to fellow subsidiaries | | | | | 1,194 |
| Amount due to an associate | | | | | 20,874 |
| Tax liabilities | | | | | 6,215 |
| Secured bank borrowing | | | | | 10,227 |
| Corporate liabilities | | | | | 2,129 |
| Consolidated total liabilities | | | | | 153,565 |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(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* |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 23,883 | 374,957 | 4,267 | 403,107 |
| Interest in an associate | | | | 21,856 |
| Advance | | | | 68,182 |
| Corporate assets | | | | 5,913 |
| Consolidated total assets | | | | 499,058 |
| Liabilities | | | | |
| Segment liabilities | 16,921 | 32,253 | 4,864 | 54,038 |
| Amounts due to fellow subsidiaries | | | | 13,315 |
| Tax liabilities | | | | 967 |
| Loan from a fellow subsidiary | | | | 30,000 |
| Secured bank borrowing | | | | 14,773 |
| Corporate liabilities | | | | 8,013 |
| Consolidated total liabilities | | | | 121,106 |

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

– all assets are allocated to reportable segments other than interest in an associate, convertible loan receivable, advance and corporate assets.

– all liabilities are allocated to reportable segments other than amounts due to fellow subsidiaries, amount due to an associate, tax liabilities, loan from a fellow subsidiary, secured bank borrowing and corporate liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 8. SEGMENT INFORMATION *(Continued)*

### Other segment information

*For the year ended 31 December 2009*

| | CG creation and production HK$'000 | Digital content distribution and exhibitions HK$'000 | Deployment of digital cinema network in Asia HK$'000 | CG training courses HK$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Additions to non-current assets (Note) | 93,370 | 2,462 | – | 2,849 | – | 98,681 |
| Depreciation | 2,532 | 1,749 | 3 | 1,383 | 350 | 6,017 |
| Reversal of doubtful debts | – | – | – | 227 | – | 227 |
| Allowance for inventories | – | 3,581 | – | – | – | 3,581 |
| Loss on disposal of property, plant and equipment | 24 | – | – | – | – | 24 |
| Gain on disposal of intangible asset | – | 2,543 | – | – | – | 2,543 |
| Amortisation of intangible asset (included in cost of sales) | – | 633 | – | – | – | 633 |
| Amortisation of prepaid lease payments | 125 | – | – | – | – | 125 |
| Interest income | 359 | 3,417 | – | 21 | 5,643 | 9,440 |

*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 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Additions to non-current assets (Note) | 17,750 | 39,345 | 1,453 | 38 | 58,586 |
| Other expense (Note 13) | – | 22,202 | – | – | 22,202 |
| Depreciation | 2,475 | 1,442 | 736 | 212 | 4,865 |
| Allowance for 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 |
| Interest income | 136 | 2,078 | 6 | 17 | 2,237 |

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical information

The Group's reportable segments operate in four main geographical areas, namely the PRC, the United States, Europe and other regions. The head office of the Group and deployment of digital cinema in Asia division are located in Hong Kong. The 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 Group's revenue by geographical market based on geographical location of customers, irrespective of the origin of the goods, and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets (Note) | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The PRC | **262,338** | 55,523 | **117,909** | 275,398 |
| United States | **48,288** | 36,434 | **243** | 245 |
| Europe | **17,716** | 12,076 | **–** | – |
| Other regions | **54,775** | 16,147 | **3,036** | 2,657 |
| | **383,117** | 120,180 | **121,188** | 278,300 |

*Note:* Non-current assets exclude available-for-sale investment, investment in an associate, other receivables, pledged bank deposit and advance.

### Information about major customer

Revenue from a customer contributing over 10% of the total revenue of the Group for the year ended 31 December 2009 is approximately HK$50,899,000 under reportable segment of digital content distribution and exhibitions. For the year ended 31 December 2008, no customer contributed over 10% of the total revenue of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2008: 9) Directors are as follows:

*For the year ended 31 December 2009*

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Retirement benefits schemes contributions<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| *Executive Directors:* | | | | |
| Mr. Cao Zhong | – | 1,800 | – | 1,800 |
| Mr. Chen Zheng | – | 2,860 | 12 | 2,872 |
| Mr. Jin Guo Ping | – | 1,300 | 12 | 1,312 |
| Ms. Lu Yi, Gloria *(Note)* | – | 1,852 | 9 | 1,861 |
| | – | 7,812 | 33 | 7,845 |
| *Non-executive Director:* | | | | |
| Mr. Leung Shun Sang, Tony | 190 | – | – | 190 |
| *Independent non-executive Directors:* | | | | |
| Mr. Kwong Che Keung, Gordon | 240 | – | – | 240 |
| Mr. Hui Hung, Stephen | 240 | – | – | 240 |
| Prof. Japhet Sebastian Law | 240 | – | – | 240 |
| | 720 | – | – | 720 |
| | 910 | 7,812 | 33 | 8,755 |

*Note:* Resigned on 5 September 2009.

For the year ended 31 December 2009, Mr. Cao Zhong waives emoluments of approximately HK$1,812,000. No other Directors waive any emoluments for the year ended 31 December 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

### (a) Directors' emoluments *(Continued)*

*For the 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:* | | | | | |
| Mr. Cao Zhong | | – | 1,500 | 8 | 1,508 |
| Mr. Chen Zheng | | – | 1,690 | 12 | 1,702 |
| Mr. Jin Guo Ping | | – | 1,170 | 12 | 1,182 |
| Ms. Lu Yi, Gloria | | – | 2,680 | 12 | 2,692 |
| | | – | 7,040 | 44 | 7,084 |
| *Non-executive Director:* | | | | | |
| Mr. Leung Shun Sang, Tony | | 190 | – | – | 190 |
| *Independent non-executive Directors:* | | | | | |
| Mr. Kwong Che Keung, Gordon | | 240 | – | – | 240 |
| Mr. Hui Hung, Stephen | | 240 | – | – | 240 |
| Prof. Japhet Sebastian Law | *(a)* | 80 | – | – | 80 |
| Prof. 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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: four) are the Directors whose emoluments are included in the disclosures above. The emoluments of the remaining one (2008: one) of the five highest paid individuals are as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **2,769** | 2,430 |
| Retirement benefits schemes contributions | **12** | 12 |
| | **2,781** | 2,442 |

## 10. OTHER INCOME

Other income for the year ended 31 December 2009 primarily comprises:

- Interest income of approximately HK$6,313,000 (2008: approximately HK$2,237,000);
- Government grants of approximately HK$3,282,000 (2008: approximately HK$187,000). The amounts are granted by the relevant PRC authorities to certain of the Group's subsidiaries to subsidise the CG production and distribution of motion pictures and CG training in the PRC. There are no specific conditions attached to the grants or the conditions attached are satisfied and therefore the Group recognised the grants upon receipt or satisfaction of the conditions;
- Gain of approximately HK$2,543,000 (2008: Nil) on disposal of intangible asset to China Film Group Corporation ("CFGC"), the majority shareholder of an associate of the Group, details of which are set out in note 19; and
- Imputed interest income derived from the deferred consideration of the disposal of intangible asset of approximately HK$3,127,000 (2008: Nil), details of which are set out in note 19.

## 11. FINANCE COSTS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **530** | 1,078 |
| Loan from a fellow subsidiary | **279** | 1,303 |
| Loan from other related party | **–** | 31 |
| Finance leases | **–** | 16 |
| | **809** | 2,428 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 12. LOSS ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount for the year ended 31 December 2009 represents loss on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, upon exercise of share options of GDC Technology during the year.

## 13. OTHER EXPENSE

Other expense for the year ended 31 December 2008 represented a one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC.

## 14. INCOME TAX EXPENSE (CREDIT)

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The income tax expense (credit) comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **6,163** | – |
| Hong Kong | **–** | 63 |
| | **6,163** | 63 |
| Overprovision in prior year: | | |
| PRC EIT | **–** | (2,246) |
| | **6,163** | (2,183) |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, 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. For the year ended 31 December 2009, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 20% to 25% (2008: 18% to 25%).

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% of the estimated assessable profit for both years.

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

No provision for income tax in Singapore and the United States has been made in the consolidated statement of comprehensive income for both years as the Group had no assessable profit arising in these jurisdictions.

For the year ended 31 December 2009, no provision for Hong Kong Profits Tax has been made in the consolidated statement of comprehensive income as the Group had no assessable profit arising in Hong Kong for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

For the year ended 31 December 2008, no provision for PRC EIT had been made in the consolidated statement of comprehensive income as the PRC subsidiaries were either exempted from PRC EIT or did not have assessable profits for that year.

For the year ended 31 December 2008, a PRC subsidiary was granted two years tax exemption for the financial years ended 2007 and 2008, followed by a 50% reduction for the financial years ended 2009, 2010 and 2011. A provision for PRC EIT of approximately HK$2,246,000 made in 2007 was therefore reversed in the consolidated statement of comprehensive income.

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

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Profit (loss) before tax | **37,940** | (78,330) |
| Tax calculated at PRC EIT rate of 25% (2008: Hong Kong Profits Tax rate of 16.5%) | **9,485** | (12,924) |
| Tax effect of income not taxable for tax purposes | **(253)** | (530) |
| Tax effect of expenses not deductible for tax purpose | **2,902** | 7,739 |
| Tax effect of tax losses not recognised | **9,668** | 7,462 |
| Utilisation of tax losses previously not recognised | **(3,821)** | (211) |
| Utilisation of temporary differences arising from unrealised profits resulting from intra-group transactions previously not recognised | **(3,808)** | (279) |
| Effect of tax exemption granted to a subsidiary in the PRC | **(7,600)** | (1,068) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(410)** | (3) |
| Overprovision in prior year | **–** | (2,246) |
| Others | **–** | (123) |
| Income tax expense (credit) for the year | **6,163** | (2,183) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

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

At the end of the reporting period, the Group has the following major deductible temporary differences and tax losses, of which no deferred tax assets are recognised due to the unpredictability of the future profit streams:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Estimated tax losses that may be carried forward | **80,141** | 56,753 |
| Unrealised profits resulting from intra-group transactions | **–** | 15,228 |
| | **80,141** | 71,981 |

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the Group's PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately HK$68 million as at 31 December 2009 (2008: approximately HK$41 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 15. PROFIT (LOSS) FOR THE YEAR

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the year has been arrived at after charging: | | |
| Staff costs, including directors' emoluments *(Note 9(a))*: | | |
| – Salaries, wages and other benefits | **94,274** | 75,342 |
| – Retirement benefit scheme contributions | **2,729** | 2,416 |
| Total staff costs | **97,003** | 77,758 |
| Less: amounts included in contract costs | **(21,095)** | (10,526) |
| | **75,908** | 67,232 |
| Allowance for doubtful debts | **–** | 386 |
| Allowance for inventories | **3,581** | 1,031 |
| Amortisation of intangible asset (included in cost of sales) | **633** | 28,491 |
| Amortisation of prepaid lease payments | **125** | 125 |
| Auditor's remuneration | **1,117** | 2,061 |
| Cost of inventories recognised as an expense | **180,015** | 35,574 |
| Contract costs recognised as an expense | **49,711** | 28,953 |
| Depreciation | **11,175** | 7,337 |
| Less: amounts included in contract costs | **(5,158)** | (1,904) |
| government grants | **–** | (568) |
| | **6,017** | 4,865 |
| Loss on disposal of property, plant and equipment | **24** | 11 |
| Minimum lease payments under operating leases for land and buildings | **6,040** | 5,625 |
| Less: amounts included in contract costs | **(681)** | (916) |
| | **5,359** | 4,709 |
| Research and development costs recognised as an expense | **8,043** | 2,843 |
| and after crediting: | | |
| Gain on disposal of intangible asset | **2,543** | 104 |
| Exchange gain, net | **1,429** | 406 |
| Reversal of doubtful debts | **227** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 16. DIVIDENDS

No dividend is paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

## 17. EARNINGS (LOSS) PER SHARE

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings (loss)** | | |
| Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the year attributable to owners of the Company) | **14,419** | (71,688) |

| | **2009** | 2008 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share | **1,295,246** | 1,295,246 |

The computation of diluted earnings per share for the year ended 31 December 2009 does not assume the exercise of the Company's share options as the exercise prices of the share options are higher than the average market price of the shares for the year.

The computation of diluted loss per share for the year ended 31 December 2008 did not assume the exercise of the Company's share options since their exercise would result in a decrease in the loss per share for that year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements | Equipment, furniture and fixtures | Computer equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | |
| At 1 January 2008 | 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 |
| Additions | 2,938 | 901 | 11,862 | 503 | 82,477 | 98,681 |
| Disposals | – | (34) | (3,264) | – | – | (3,298) |
| At 31 December 2009 | 33,028 | 5,630 | 53,948 | 1,911 | 91,460 | 185,977 |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1 January 2008 | 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 |
| Provided for the year | 2,170 | 965 | 7,888 | 152 | – | 11,175 |
| Eliminated on disposals | – | (31) | (2,885) | – | – | (2,916) |
| At 31 December 2009 | 29,554 | 2,950 | 37,144 | 940 | – | 70,588 |
| CARRYING VALUES | | | | | | |
| At 31 December 2009 | 3,474 | 2,680 | 16,804 | 971 | 91,460 | 115,389 |
| At 31 December 2008 | 2,706 | 2,747 | 13,209 | 620 | 8,983 | 28,265 |

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 |

The construction in progress represents a building in the PRC for the Group's own use in the course of construction.

As at 31 December 2009, all of Group's construction in progress have been pledged to secure banking facilities granted to the Group (see note 34).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 19. INTANGIBLE ASSET

| | *HK$'000* |
|---|---|
| COST | |
| At 1 January 2008 | 221,545 |
| Exchange realignment | 13,834 |
| Acquisition | 38,369 |
| Disposal | (1,250) |
| At 31 December 2008 | 272,498 |
| Disposal | (272,498) |
| At 31 December 2009 | – |
| AMORTISATION | |
| At 1 January 2008 | – |
| Charge for the year | 28,491 |
| Eliminated on disposal | (104) |
| At 31 December 2008 | 28,387 |
| Charge for the year | 633 |
| Eliminated on disposal | (29,020) |
| At 31 December 2009 | – |
| CARRYING VALUE | |
| At 31 December 2009 | – |
| At 31 December 2008 | 244,111 |

As at 31 December 2008, the intangible asset represented 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 had finite useful life and was amortised on a straight line basis over the relevant contract up to 10 years. In 2009, the Group disposed the intangible asset to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). The consideration was payable by CFGC in 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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 19. INTANGIBLE ASSET *(Continued)*

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

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

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

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

The difference between the fair value of consideration of approximately HK$251,100,000, estimated by using the People's Bank of China Renminbi Lending Rate, transaction costs directly attributable to the disposal of approximately HK$5,079,000 and the carrying amount of the intangible assets at the date of disposal is recognised in profit or loss for the year and included in other income. Imputed interest income derived from the deferred consideration of the disposal of approximately HK$3,127,000 is recognised for the year and included in other income.

The disposal was approved by shareholders of the Company at the Special General Meeting on 17 February 2009. Details of the disposal were set out in the circular of the Company dated 23 January 2009.

## 20. AVAILABLE-FOR-SALE INVESTMENT

As at 31 December 2009, the investment represents 5% equity interest in a private entity established in the PRC. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so variable that the Directors are of the opinion that their fair values cannot be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 21. PREPAID LEASE PAYMENTS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| COST | | |
| At 1 January | **6,246** | 5,794 |
| Exchange realignment | **–** | 365 |
| Addition during the year | **–** | 87 |
| At 31 December | **6,246** | 6,246 |
| AMORTISATION | | |
| At 1 January | **197** | 68 |
| Exchange realignment | **–** | 4 |
| Charge for the year | **125** | 125 |
| At 31 December | **322** | 197 |
| CARRYING VALUE | | |
| At 31 December | **5,924** | 6,049 |

The Group's prepaid lease payments comprise:

| | | |
|---|---|---|
| Medium-term leasehold land in the PRC | **5,924** | 6,049 |
| Analysed for reporting purposes as: | | |
| Current | **125** | 125 |
| Non-current | **5,799** | 5,924 |
| | **5,924** | 6,049 |

As at 31 December 2009, all of Group's prepaid lease payments have been pledged to secure banking facilities granted to the Group (see note 34).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 22. INTEREST IN AN ASSOCIATE

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of investment in an unlisted associate | **21,806** | 21,806 |
| Share of post-acquisition exchange difference recognised in other comprehensive income | **1,205** | 1,205 |
| Share of post-acquisition losses | **(1,442)** | (1,155) |
| | **21,569** | 21,856 |

As at 31 December 2009 and 2008, the Group has 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 in 2008 and became inactive in 2009 |

*Note:* The Group holds 49% of registered capital of CFGDC and holds 2 out of 5 votes (representing 40% of the votes) in the meeting of the board of directors of CFGDC. Pursuant to the Articles of Association of CFGDC, over 50% vote is required to pass resolutions 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 22. INTEREST IN AN ASSOCIATE *(Continued)*

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **44,018** | 44,639 |
| Total liabilities | **–** | (35) |
| Net assets | **44,018** | 44,604 |
| The Group's share of net assets of an associate | **21,569** | 21,856 |
| Revenue | **60** | 611 |
| Loss for the year | **586** | 1,749 |
| The Group's share of loss of an associate for the year | **287** | 857 |

## 23. OTHER RECEIVABLES

The whole amount of other receivables classified as non-current assets (2008: Nil) and approximately HK$4,153,000 of other receivables classified as current assets (2008: Nil) relate to receivables arising from VPF agreements.

During the year, a subsidiary of the Company signed VPF agreements and exhibition agreements (collectively referred to as "VPF Arrangement") with distributors and exhibitors of digital content (collectively referred to as "Third Parties") in connection with the deployment of digital cinema equipment in cinemas in Asia. Under the VPF Arrangement, the Group would provide (i) assembly and integration services in respect of digital cinema equipment and install the equipment in the exhibitors' cinemas as well as (ii) financing to the Third Parties for a portion of the agreed purchase price of this digital cinema equipment. These receivables, which are to be settled based on the usage of the digital cinema equipment within 10 years from the date of installation, bear interest at the cost of funds incurred by that subsidiary arising from the VPF Arrangement but subject to a cap of 10% per annum.

The Directors expect that approximately HK$4,153,000 will be settled within one year after the end of the reporting period and this amount therefore classified as a current asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 24. ADVANCE/CONVERTIBLE LOAN RECEIVABLE

On 23 December 2008, the Group entered into a conditional agreement (the "Loan Facility Arrangement") with Southern International Limited (the "Borrower"), a private investment company incorporated in Hong Kong, and its holding company whereby the Group agreed to advance a loan facility in the maximum principal amount of RMB100 million (equivalent to approximately HK$113.6 million) (the "Loan Receivable") and the Borrower agreed to grant to the Group the exclusive rights and options to subscribe for an aggregate of up to 60% of the enlarged issued capital of the Borrower (the "Conversion Option") 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. Details of the transaction were set out in the circular of the Company dated 23 January 2009.

The transaction was approved by shareholders of the Company at the Special General Meeting of the Company on 17 February 2009, the advance of approximately HK$68.2 million as at 31 December 2008 formed part of the Loan Receivable thereafter and the Group advances the remaining sum of approximately HK$45.4 million to the Borrower during the year ended 31 December 2009.

The Conversion Option was granted to the Group pursuant to the Loan Facility Arrangement. Accordingly, the Group assessed the fair value of the Loan Receivable with reference to the prevailing market interest of similar non-convertible loans and appointed Messrs. Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), an independent qualified professional valuer not connected with the Group, to ascertain the fair value of the Conversion Option as at 17 February 2009 and 30 June 2009 ("Valuation"). The fair value of the Conversion Option as at 31 December 2009 has been estimated by the Directors with reference to the valuation methodology adopted by Sallmanns and the performance of the Borrower since 1 July 2009. The Group concluded that the principal amount of the Loan Receivable approximates to its fair value at initial recognition and the fair value of the Conversion Option is insignificant at both initial recognition and 31 December 2009.

As at 31 December 2009, the carrying amount of the convertible loan receivable of approximately HK$119.3 million comprises principal amount of RMB100 million (equivalent to approximately HK$113.6 million) and the accrued interest thereon. The convertible loan receivable is stated at amortised cost using the effective interest method at 6% per annum less any identified impairment losses.

Subsequent to the end of the reporting period, the Borrower repaid part of the principal amount of Loan Receivable and the accrued interest thereon amounting to approximately HK$113.6 million. The remaining amount of approximately HK$5.7 million is expected to be settled within one year after the end of the reporting period and therefore, the whole amount of approximately HK$119.3 million is classified as a current asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 25. INVENTORIES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Raw materials, net of allowance of approximately HK$1,974,000 (2008: approximately HK$650,000) | **7,059** | 6,345 |
| Finished goods, net of allowance of approximately HK$2,492,000 (2008: approximately HK$940,000) | **27,888** | 9,337 |
| | **34,947** | 15,682 |

## 26. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following are details of contracts from CG production in progress at the end of the reporting period:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **49,991** | 28,574 |
| Less: progress billings | **(44,562)** | (13,402) |
| | **5,429** | 15,172 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **5,795** | 16,935 |
| Amounts due to customers for contract work | **(366)** | (1,763) |
| | **5,429** | 15,172 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 27. TRADE RECEIVABLES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **41,497** | 7,761 |
| Less: allowance for doubtful debts | **(159)** | (386) |
| | **41,338** | 7,375 |

The Group allows different credit periods to its customers from 30 days to 90 days depending on the type of products sold or services provided.

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within three months | **39,531** | 5,003 |
| Three to six months | **1,484** | 672 |
| Over six months | **323** | 1,700 |
| | **41,338** | 7,375 |

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

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$1,807,000 (2008: approximately HK$2,372,000) which are past due at the end of the reporting period for which the Group does not provide for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these receivables.

## 27. TRADE RECEIVABLES *(Continued)*

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Three to six months | **1,484** | 672 |
| Six to nine months | **140** | 1,241 |
| Nine to twelve months | **156** | 43 |
| Over one year | **27** | 416 |
| Total | **1,807** | 2,372 |

**Movement in the allowance for doubtful debts**

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **386** | 230 |
| Allowance for impairment losses on receivables | **–** | 386 |
| Amounts recovered during the year | **(227)** | (230) |
| At 31 December | **159** | 386 |

Included in the allowance for doubtful debts as at 31 December 2008 were individually impaired trade receivables with an aggregate balance of approximately HK$386,000, in respect of which the customer was not fully satisfied with quality of the service provided by the CG training division and the amounts was considered uncollectible. During the year ended 31 December 2009, approximately HK$227,000 is recovered from that customer and reversal of doubtful debts is made.

## 28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2009 and 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 29. BANK BALANCES/PLEDGED BANK DEPOSITS

As at 31 December 2009, bank balances carry interest at market rates which range from 0.01% to 0.36% per annum (2008: 0.01% to 1.71% per annum).

As at 31 December 2009, the pledged bank deposit represents deposit of approximately HK$1,956,000 (2008: approximately HK$665,000) pledged to a bank to secure a construction agreement (classified as non-current asset) entered into with an independent third party which carries interest rate at 1.98% per annum (2008: 3.22% per annum). The pledged bank deposit will be released upon the settlement of the agreement. As at 31 December 2008, the Group also pledged another deposit of approximately HK$2,808,000 to a bank to secure a purchase of raw materials agreement (classified as current asset) which carried interest rate at 0.1% per annum.

## 30. TRADE PAYABLES

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within three months | **29,965** | 5,325 |
| Three to six months | **1,816** | 76 |
| Over six months | **–** | 1,473 |
| | **31,781** | 6,874 |

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. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

## 33. LOAN FROM A FELLOW SUBSIDIARY

As at 31 December 2008, the loan was owing to SCG Finance Corporation Limited, a wholly-owned subsidiary of Shougang Grand, which was unsecured, bore interest at 6% per annum and was fully settled during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 34. SECURED BANK BORROWING

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured variable-rate bank borrowing | **10,227** | 14,773 |
| Carrying amount repayable: | | |
| Within one year | **–** | 14,773 |
| More than one year, but not exceeding two years | **–** | – |
| More than two years, but not exceeding three years | **2,273** | – |
| More than three years, but not exceeding four years | **7,954** | – |
| | **10,227** | 14,773 |
| Less: Amounts due within one year shown under current liabilities | **–** | (14,773) |
| Amounts due after one year | **10,227** | – |

As at 31 December 2009, the bank borrowing raised is denominated in Renminbi, secured by Group's pledge of construction in progress (see note 18) and prepaid lease payments (see note 21), and carries interest at the People's Bank of China Renminbi Lending Rate per annum. The proceeds are used for construction of a building in the PRC. As at 31 December 2008, the bank loan was denominated in Renminbi, secured by pledge of a property of a subsidiary of Shougang Grand, and carried interest at the People's Bank of China Renminbi Lending Rate per annum. The proceeds were used as general working capital of the Group. The interest rate (which is also equal to contracted interest rate) in the Group's bank borrowing is ranged from 5.103% to 5.94% (2008: 5.797% to 7.076%) per annum. Interest is repricing every month.

As at 31 December 2009, the Group has the undrawn borrowing facilities of approximately RMB141,000,000 (equivalent to approximately HK$160,227,000), which is secured by pledge of construction in progress (see note 18) and prepaid lease payment (see note 21), carries interest at the People's Bank of China Renminbi Lending Rate per annum and will be expired beyond one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 35. ISSUED CAPITAL

| | Number of shares | Share capital *HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 1 January 2008, 31 December 2008 and 2009 | 2,400,000,000 | 24,000 |
| Issued and fully paid: | | |
| At 1 January 2008, 31 December 2008 and 2009 | 1,295,245,540 | 12,952 |

## 36. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 36. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the Company's share options during the year ended 31 December 2009:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| **Category of grantees** | **Date of grant** | **Exercise period** | **Exercise price per share** | **Balance as at 1.1.2009** | **Transferred to other category during the year** | **Transferred from other category during the year** | **Lapsed during the year** | **Balance as at 31.12.2009** |
| Directors | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.3 | 8,008,200 | – | – | (8,008,200) | – |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 27,680,000 | (12,000,000) | – | – | 15,680,000 |
| 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$0.3 | 2,500,820 | – | – | (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 | – | – | 12,000,000 | (12,000,000) | – |
| Totals | | | | 54,432,020 | (12,000,000) | 12,000,000 | (22,509,020) | 31,923,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 36. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2009:

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| **Category of grantees** | **Date of grant** | **Exercise period** | **Exercise price per share** | **Balance as at 1.1.2009** | **Exercised during the year** | **Lapsed during the year** | **Balance as at 31.12.2009** |
| 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 | 17,280,000 | – | (12,000,000) | 5,280,000 |
| Employees | 5.10.2006 | 5.10.2006 – 4.10.2009 | HK$0.145 | 3,913,332 | (130,000) | (3,783,332) | – |
| | 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 | 853,333 | (320,000) | (533,333) | – |
| Totals | | | | 23,699,998 | (450,000) | (16,319,998) | 6,930,000 |

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 per share | Balance as at 1.1.2008 | Transferred to other category during the year | Transferred from other category during the year | 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 36. SHARE OPTION SCHEMES *(Continued)*

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 per share | Balance as at 1.1.2008 | 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 |

## 37. OPERATING LEASES

### The Group as lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **6,135** | 6,710 |
| In the second to fifth year inclusive | **13,177** | 5,413 |
| Over five years | **3,558** | 2,754 |
| | **22,870** | 14,877 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 38. 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$205,000 (2008: approximately HK$105,000) payable to the Retirement Schemes as at 31 December 2009 are included in other payables and accruals. There was no forfeited contribution throughout the year (2008: Nil).

## 39. CAPITAL COMMITMENTS

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| Capital expenditure contracted for but not provide in the consolidated financial statements in respect of: | | |
| Acquisition of property, plant and equipment | **125,733** | 8,350 |

## 40. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Borrower repaid part of the principal amount of Loan Receivable and the accrued interest thereon amounting to approximately HK$113.6 million. Details of Loan Receivable and the accrued interest thereon, which are classified as convertible loan receivable, are disclosed in note 24.

## 41. RELATED PARTY TRANSACTIONS

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

| | *Notes* | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|---|
| (i) Management fee charged by Shougang Concord International Enterprises Company Limited, an associate of the controlling shareholder of Shougang Grand | *(a)* | **2,945** | – |
| (ii) Rental expense paid to Shougang Grand in respect of office premises | *(a)* | **1,620** | 1,620 |
| (iii) Interest expense paid to SCG Finance Corporation Limited, a subsidiary of Shougang Grand | *(a)* | **279** | 1,303 |
| (iv) Interest expense paid to South China International Leasing Company Limited, a subsidiary of Shougang Grand, in respect of obligations under finance leases | *(b)* | **–** | 16 |

*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.

In addition to above, the secured bank borrowing as at 31 December 2008 disclosed in note 34 was secured by pledge of a property of a subsidiary of Shougang Grand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 41. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of the Directors and other key management personnel during the year is as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Short-term benefits | **13,762** | 11,561 |
| Post-employment benefits | **57** | 68 |
| | **13,819** | 11,629 |

The remuneration of the Directors and senior management 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 end of the reporting period are set out in the consolidated statement of financial position and in notes 31 to 33.

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2009 and 2008 are as follows:

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment | Particulars of issued capital/ paid up capital | Attributable equity interest of the Group directly 2009 % | directly 2008 % | indirectly 2009 % | indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| GDC Holdings Limited | Incorporated | BVI | 521,418,075 ordinary shares of US$0.01 each | 100 | 100 | – | – | Investment holding |
| 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 each | – | – | 100 | 100 | Investment holding and deployment of digital cinema network in Asia |
| GDC Digital Cinema Network Limited | Incorporated | Hong Kong | 1 ordinary share of HK$1 | – | – | 100 | 100 | Deployment of digital cinema network in Asia |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment | Particulars of issued capital/ paid up capital | Attributable equity interest of the Group | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | directly | | indirectly | | |
| | | | | 2009 % | 2008 % | 2009 % | 2008 % | |
| 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 | 233,045,092 ordinary shares of HK$0.10 each | – | – | 61.8 | 61.9 | Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis |
| GDC Technology (Hong Kong) Limited | Incorporated | Hong Kong | 2 ordinary shares of HK$1 each | – | – | 61.8 | 61.9 | Provision of computing solutions for digital content distribution and exhibitions |
| GDC Technology Pte. Ltd. | Incorporated | Singapore | 900,000 ordinary shares of S$1.00 each | – | – | 61.8 | 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 | – | – | 61.8 | 61.9 | Provision of computing 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 |
| 北京科創環球數碼技術有限公司 | Incorporated | PRC | RMB200,000 | – | – | 61.8 | 61.9 | Provision of computing solutions for digital content distribution and exhibitions |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment | Particulars of issued capital/ paid up capital | Attributable equity interest of the Group directly 2009 % | directly 2008 % | indirectly 2009 % | indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| 重慶環球數碼動畫有限公司 | Incorporated | PRC | RMB9,000,000 | – | – | 100 | 100 | Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC |
| 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 |
| 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 | RMB10,000,000 | – | – | 61.8 | 61.9 | Provision of computing solutions for digital content distribution and exhibitions |
| 無錫環球數碼動畫有限公司 | Incorporated | PRC | RMB500,000 | – | – | 100 | 100 | Provision of CG and animation training in the PRC |
| 重慶北部新區環球數碼動畫職業培訓學校 | School | PRC | RMB100,000 | – | – | 100 | – | Provision of CG and animation training in the PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For The Year Ended 31 December 2009*

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment | Particulars of issued capital/ paid up capital | Attributable equity interest of the Group | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | directly | | indirectly | | |
| | | | | 2009 % | 2008 % | 2009 % | 2008 % | |
| 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 |
| 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 |

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

## 43. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("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 Production and Partners Multimedia, SAS ("P&PM") in relation to an animated television 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 were 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.

Effective from 1 May 2008, GDC Entertainment had 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 | | | | |
|---|---|---|---|---|---|
| | 2005<br>*HK$'000* | 2006<br>*HK$'000* | 2007<br>*HK$'000* | 2008<br>*HK$'000* | **2009**<br>***HK$'000*** |
| Revenue | 32,195 | 54,920 | 246,125 | 120,180 | **383,117** |
| (Loss) profit from operations | (68,530) | (17,165) | 28,868 | (74,106) | **38,177** |
| Changes in fair value of held-for-trading investments | – | – | – | (939) | **859** |
| Finance costs | (7,675) | (13,080) | (4,002) | (2,428) | **(809)** |
| Share of loss of an associate | – | – | (298) | (857) | **(287)** |
| (Loss) profit before tax | (76,205) | (30,245) | 24,568 | (78,330) | **37,940** |
| Income tax (expense) credit | (151) | – | (3,099) | 2,183 | **(6,163)** |
| (Loss) profit for the year | (76,356) | (30,245) | 21,469 | (76,147) | **31,777** |

## CONSOLIDATED ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2005<br>*HK$'000* | 2006<br>*HK$'000* | 2007<br>*HK$'000* | 2008<br>*HK$'000* | **2009**<br>***HK$'000*** |
| Total assets | 34,319 | 26,501 | 528,477 | 499,058 | **563,470** |
| Total liabilities | 162,531 | 181,210 | 93,286 | 121,106 | **153,565** |
| Net (liabilities) assets | (128,212) | (154,709) | 435,191 | 377,952 | **409,905** |