# 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 2011

* *For identification purpose only*

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

# CONTENTS


3 MISSION STATEMENT

4 CORPORATE INFORMATION

5 BIOGRAPHICAL DETAILS OF DIRECTORS

7 MAIN OPERATIONAL STRUCTURE

8 CHAIRMAN'S STATEMENT

12 MANAGEMENT DISCUSSION AND ANALYSIS

21 CORPORATE GOVERNANCE REPORT

33 REPORT OF THE DIRECTORS

45 INDEPENDENT AUDITOR'S REPORT

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

47 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

49 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

51 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

53 CONSOLIDATED STATEMENT OF CASH FLOWS

55 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

129 FIVE YEARS FINANCIAL SUMMARY

130 PARTICULARS OF PROPERTIES

2010－2011 年度

广东省文化出口重点企业

省外经贸厅 省委宣传部 省文化厅 省广电局 省新闻出版局

二〇一一年七月

# 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. Li Shaofeng *(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
Prof. Japhet Sebastian Law
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

## EXECUTIVE COMMITTEE

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

## AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Prof. Japhet Sebastian Law
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

## NOMINATION COMMITTEE

Mr. Li Shaofeng *(Chairman)*
Mr. Leung Shun Sang, Tony *(Vice Chairman)*
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

## REMUNERATION COMMITTEE

Mr. Leung Shun Sang, Tony *(Chairman)*
Mr. Li Shaofeng *(Vice Chairman)*
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

## COMPLIANCE OFFICER

Mr. Chen Zheng

## COMPANY SECRETARY

Mr. Chiu Ming Kin

## AUTHORISED REPRESENTATIVES

Mr. Chen Zheng
Mr. Chiu Ming Kin

## AUDITOR

Deloitte Touche Tohmatsu

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR 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

Unit 1-7, 20/F, Kodak House II
39 Healthy Street East
North Point
Hong Kong

## STOCK CODE

8271

## WEBSITE

www.gdc-world.com

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Li Shaofeng**, aged 45, holds a Bachelor's Degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed as an Executive Director and the Chairman, the Chairman of each of the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company in May 2010. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding") in 1989 and is currently the vice chairman and the general manager of Shougang Holding. Currently, he is an executive director and the 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, Chapter 571 of the Laws of Hong Kong (the "SFO"), the managing director of Shougang Concord International Enterprises Company Limited ( "Shougang International"), the managing director and the chairman of Shougang Concord Century Holdings Limited ("Shougang Century"), an executive director and the chairman of Shougang Concord Technology Holdings Limited ("Shougang Technology") Shougang Fushan Resources Group Limited ("Shougang Res") and a non-executive director of Sinocop Resources (Holdings) Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of each of Wheeling Holdings Limited and Upper Nice Assets Ltd., both are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Li has extensive experience in management and investment of listed companies, sino-foreign joint ventures and steel industry.

**Mr. Chen Zheng**, aged 52, engineer and senior economist. He holds a bachelor's degree in chemical engineering and a master's degree in business administration. Mr. Chen was appointed as 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 appointed as an executive director of operations of Shougang Grand (resigned on 27 August 2011). Mr. Chen has extensive experience in investment business and corporate management.

**Mr. Jin Guo Ping**, aged 53, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed as an 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. Mr. Jin was a director of Shanghai Animation Film Studio, 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., and the assistant director of broadcasting of Shanghai Television. Mr. Jin has extensive experience in animation and film industries. With effect from 21 May 2010, he has been appointed as a member of the Shenzhen Committee of the Chinese People's Political Consultative Conference.

## NON-EXECUTIVE DIRECTOR

**Mr. Leung Shun Sang, Tony**, aged 69. Mr. Leung was appointed as a Non-executive Director of the Company in December 2005. He is also the Chairman of the Remuneration Committee 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 Shougang Res. Mr. Leung is the managing director of CEF Group. He holds a master's degree in business administration from New York State University and has over 40 years of experience in finance, investment and corporate management.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Kwong Che Keung, Gordon**, aged 62. Mr. Kwong was appointed as an Independent non-executive Director of the Company in April 2003. He is also the Chairman of the Audit Committee, the member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies including, NWS Holdings 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, CITIC Telecom Industrial Holdings Limited (Formerly known as CITIC 1616 Holdings Limited), China COSCO Holdings Company Limited and Chow Tai Fook Jewellery Group Limited. He was an independent non-executive director of the following Hong Kong Listed companies during the past three years: Ping An Insurance (Group) Company of China, Limited, Tianjin Development Holdings Limited, China Oilfield Services Limited, Frasers Property (China) Limited, COSCO International Holdings Limited and Beijing Capital International Airport Company Limited. 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 from 1992 to 1997, during which, he had acted as convener of both the compliance committee and the listing committee.

**Prof. Japhet Sebastian Law**, aged 60. Prof. Law was appointed as 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 a doctor of philosophy degree 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 a director of Operations Research at the Cullen College of Engineering and a 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 a consultant for various corporations in Hong Kong and overseas. Prof. Law is active in public services and serves as a member of the Provisional Regional Council of the Hong Kong SAR Government and various 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 an independent non-executive director of Tianjin Port Development Holdings Limited, Beijing Capital International Airport Co., Ltd., Binhai Investment Company Limited and Ever Fortune International Holding Ltd., all of which are listed companies in Hong Kong. He also served as an independent non-executive director of First China Financial Holdings Limited until 1 October 2008.

**Mr. Hui Hung, Stephen**, aged 54. Mr. Hui was appointed as an Independent non-executive Director of the Company in February 2006 and 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.

Mr.Hui resigned as an an Independent non-executive Director, member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company on 23 March 2012.

# MAIN OPERATIONAL STRUCTURE

**GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED**
(Stock Code : 8271)

- **100 %** — Institute of Digital Media Technology (Shenzhen) Limited (PRC) — CG Creation and Production
- **100 %** — Institute of Digital Media Technology (Shanghai) Limited (PRC) — CG Training
- **68 %** — Guangdong GDC Cultural Park Limited* (formerly known as Guangdong Shishang Zhiye Investment Co., Ltd.*) (PRC) — Cultural Park
- **11.93%** — GDC Technology Limited (BVI) — Digital Content Distribution and Exhibitions

* *For identification purpose only*

# Chairman's Statement

The global economic environment for the year 2011 was clouded by uncertainties. The economy showed signs of growth following the economic stimulus packages implemented by governments of various countries in the beginning of the year. Nevertheless, a slowdown witnessed amidst a barrage of economic shocks from the surrounding environments, particularly the financial instability triggered by the Eurozone crisis that may drag down global economic growth. Worries caused by sovereign debt have spreaded from surrounding countries to core members of the Eurozone, and as far as other Advanced Economies. Real economies would also be affected as liquidity recedes. Emerging markets, which stayed unaffected by the negative impact of the global economic situation over the years, are now facing problems of capital fluctuation and diverse export conditions. Economists have started to make downward adjustment on the outlook forecast of these markets.

In the face of such a complex global economic crisis, no industry could be immune from this difficult time. We must continue to rely on our professional capabilities and dedications to achieve better synergy, seize potential opportunities and meet upcoming challenges.

In ploughing through 2010, which had been a difficult year for the industry, the Group worked on more computer graphic ("CG") production projects during the year as a result of the continuous recovery of the international animation production industry. Revenue from contracts for CG creation and production increased significantly when compared with that for the year 2010. The Group currently has a number of CG production projects in progress from overseas and there are several co-production projects and service projects under negotiation or in their testing stages, two of which are in Europe and are about to commence production. This demonstrates the result of the Group's operational policies in delivering high quality products to customers and enhancing its financial control and production efficiency to improve its performance.

The Group's attempt in diversifying its intellectual property investment achieves further success. At present, one of the two 3D-animated films has been completed and has obtained a license for public release scheduled in the year 2012; one CG-animated television series has been completed and has obtained a license for distribution and the Group has appointed an international distribution agent while certain countries and regions have confirmed their purchases; and one traditional-animated television series has also been completed and is now being distributed both domestically and internationally. In addition, the Group will invest in and new CG-animated television series and production of trailer has been started. A number of foreign companies have shown their interest in cooperating with us. The Group has made achievements in introducing the domestic creation industry to the global market and eventually promoting Chinese culture worldwide.

3D film and television market worldwide experiences rapid growth and the animation industry in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan) continues to expand as we have expected. In addition to the investments in its own intellectual property assets, the Group will also expand to related businesses. During the year, the Group had developed its local creation and production business in the PRC, among which a creative production project on a large theme park in Shenzhen has been completed and commenced operations with credits from customers. This further enhances the brand of the Group and promotes the Group's market image as a professional team on cultural creation, production and management.

Our CG training division is not as smooth as other divisions this year. Due to greater competition in the market, income from CG training division decreased. At present, the Group is upgrading the existing training courses with the latest CG technology and organises more training programmes in other areas in response to market demands from different aspects. The Group has also enhanced its marketing efforts. During the year, we commenced strategic brand cooperation with other pioneers in the industry, enhanced industrial linkages, integrated resources and improved the employment rate of graduates. The Group has diversified its product portfolio and established a training system with greater coverage on the basis of the existing training system, in order to build a new model to succeed in the animation training industry.


Moreover, our achievements in the CG business have gained recognition from the PRC government and the market, with the market influence of our corporate brand ever increasing. During the year, the Group has been repeatedly chosen to be the site-visit target of the senior officials of the central, provincial and municipal governments. It has also been selected for the first time as one of the venues of China (Shenzhen) International Cultural Industries Fair. Besides, the Group successfully organised the summit forum of the PRC animation industry and participated in the China International Cartoon and Animation Festival and the Hong Kong International Film and TV Market (FILMART). We also invited Anthony LaMolinara, who was awarded the Academy Award for Achievement in Visual Effects, to join the Group as its chief artistic director. As always, we endeavour to promote the PRC's creative technology and culture to the global market.

The acquisition of 68% interest in 廣東環球數碼創意產業有限公司 (Guangdong GDC Cultural Park Limited*) (formerly known as 廣東時尚置業有限公司 Guangdong Shishang Zhiye Investment Co., Ltd.*) in 2010 provided us an opportunity to participate in the media entertainment and property development business in the PRC. We appointed several renowned architects, consultants and building management companies to prepare and refine the redevelopment plan of 珠影文化產業園 (Pearl River Film Cultural Park*), so as to take advantage of the prime location and the urban redevelopment policy in the PRC. We believe that the redeveloped cultural park will become an eye-catching scenic spot in Guangzhou and our growth engine in the future. It will be a sustainable and fast-growing source of revenue for the Group and will be an exemplar for the operation of similar projects of the Group. By means of these, we will be able to and improve our brand image in the cultural industry and maximise returns for our shareholders.

The year 2012 is expected to be a year of transition and development. In light of the continuous growth in the CG creation and production division, the potential recovery in the CG training division as well as the huge development potentials in the cultural park division, we reasonably believe that the Group will maintain continuous business development and become an internationally renowned digital and cultural industry group.

**Li Shaofeng**
*Chairman*

Hong Kong, 22 March 2012


# Management Discussion And Analysis

## FINANCIAL OVERVIEW

Revenue from continuing operations for the year ended 31 December 2011 was HK$94,677,000, when comparing with that of HK$35,920,000 for the year 2010, representing a significant increase of 164%. The increase was mainly attributable to increases in revenue from computer graphic ("CG") creation and production division by HK$63,255,000, out of which HK$22,735,000 is related to the increase in rental income in 2011. The Group worked on more CG production projects during the year as a result of the continuous recovery of the international animation production industry and received more rental income generated during the year from leasing of the Group's headquarters building in Shenzhen.

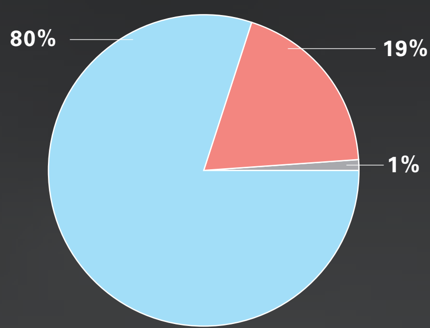
Cost of sales from continuing operations for the year ended 31 December 2011 amounted to HK$69,390,000, when comparing with that of HK$32,824,000 for the year 2010, representing an increase of 111%. The increase was mainly due to more CG production costs incurred.

The Group recorded a gross profit from continuing operations of HK$25,287,000 for the year ended 31 December 2011, representing a gross profit margin of 27%. Comparing with the gross profit margin of 9% for the year 2010, the significant improvement was mainly attributable to the fact that the Group worked on more CG production projects with higher profit margins.



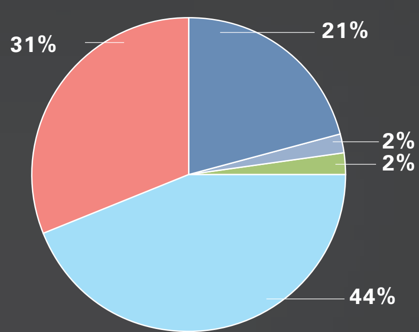

## FINANCIAL OVERVIEW *(Continued)*

Other income from continuing operations for the year ended 31 December 2011 amounted to HK$14,735,000 (2010: HK$6,524,000), representing an increase of 126%. The increase was mainly due to a dividend income of HK$8,039,000 received during the year.




### REVENUE BY PRINCIPAL ACTIVITY OF CONTINUING OPERATIONS FOR THE YEAR 2011

- **80%** CG creation and production
- **19%** CG training courses
- **1%** Cultural park



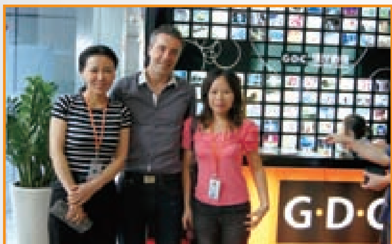

### REVENUE BY GEOGRAPHICAL LOCATION OF CONTINUING OPERATIONS FOR THE YEAR 2011

- **44%** The People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
- **31%** Denmark
- **21%** The United States
- **2%** Italy
- **2%** Others

## FINANCIAL OVERVIEW *(Continued)*

Distribution costs and selling expenses from continuing operations for the year ended 31 December 2011 amounted to HK$6,716,000 (2010: HK$5,485,000), representing an increase of 22%. The increase was mainly due to more marketing expenses spent on 珠影文化產業園 (Pearl River Film Cultural Park*).

Administrative expenses from continuing operations for the year ended 31 December 2011 amounted to HK$58,573,000 (2010: HK$49,672,000), representing an increase of 18%. There was HK$18,560,000 share-based payment expense in 2010 while there is nil in 2011. The increase in other administrative expenses was mainly due to depreciation of property, plant and equipment for the year increased by HK$3,764,000 to HK$7,922,000 upon completion of the Group's construction of the headquarters building in Shenzhen in late 2010, and higher staff costs and office operating expenses incurred as a result of the growth in the scale of operations of the Group.




Finance costs from continuing operations for the year ended 31 December 2011 amounted to HK$10,363,000 (2010: HK$1,503,000), which represented interest on bank borrowing for the headquarters building in Shenzhen that was not eligible for capitalisation upon completion of the construction.

Following completion of the disposal of interests in GDC Technology Limited ("GDC Tech") and GDC Digital Cinema Network Limited ("GDC DCN") on 6 September 2011 (the "Disposal"), operations of digital content distribution and exhibitions division and deployment of digital cinema network division were considered as discontinued. The profit for the year from the discontinued operations of HK$387,146,000 for the year ended 31 December 2011 represented gain on disposal of discontinued operations of HK$277,329,000 and profit from discontinued operations for the period from 1 January 2011 to 6 September 2011 of HK$109,817,000.

Overall, the Group recorded a profit attributable to owners of the Company of HK$306,180,000 for the year ended 31 December 2011, representing a significant increase of 875% when compared with that of HK$31,397,000 for the year 2010. Excluding the profit for the year from discontinued operations, the Group recorded a loss attributable to owners of the Company from continuing operations of HK$34,635,000 for the year ended 31 December 2011, representing a improvement of 35% when compared with that of HK$53,412,000 for the year 2010.

## FINANCIAL OVERVIEW *(Continued)*

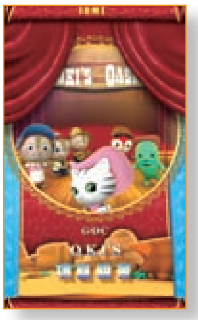
Basic and diluted earnings per share from continuing and discontinued operations for the year ended 31 December 2011 amounted to HK22.69 cents (2010: HK2.42 cents) and HK22.68 cents (2010: HK2.42 cents), respectively, representing significant increases of 838% and 837% when compared with that for the year 2010. Excluding the profit for the year from discontinued operations, basic and diluted loss per share from continuing operations for the year ended 31 December 2011 amounted to HK2.57 cents (2010: HK4.12 cents), representing an improvement of 38% when compared with that for the year 2010.

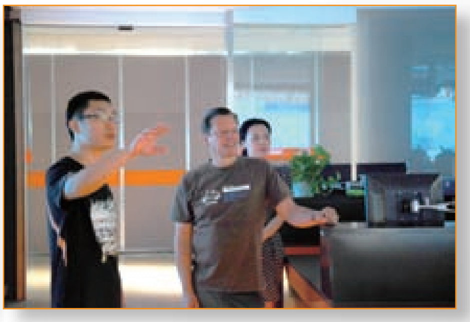
## BUSINESS REVIEW AND OUTLOOK

### CG creation and production

Revenue from CG creation and production division for the year 2011 increased significantly by 487% to HK$76,252,000 when compared with that for the year 2010, out of which HK$22,735,000 is related to the increase in rental income in 2011. The Group currently has five CG production projects in progress from customers in Australia, Europe and North America and there are several co-production projects and service projects under negotiation or in their testing stages, two of which in Europe are about to commence production. The Group will not only continue to deliver high quality products to customers, but also enhance its financial control and production efficiency to improve its performance.

The Group's diversification into intellectual property investment has achieved a preliminary success. At present, one of the two 3D-animated films has been completed and has obtained a license for public release scheduled in the year 2012; one CG-animated television series has been completed and has obtained a license for distribution and the Group has appointed an international distribution agent while certain countries and regions have confirmed their purchase; and one traditional-animated television series has also been completed and is now being distributed both domestically and internationally. In addition, the Group will invest in new CG-animated television series and production of trailer has been started. A number of foreign companies have shown their interest in cooperating with the Group.





In view of the growing 3D film and television market worldwide and the expanding animation industry in the PRC, the Group continues to invest in its own intellectual property assets and plans for expansion of related businesses. The Group will also continue to develop its local creation and production business in the PRC, in which a creative production project on a large theme park in Shenzhen has been completed and commenced operations with credits from customers.

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

### CG training

For the year ended 31 December 2011, due to greater competition in the market, training fee from CG training division decreased by 21% to HK$17,552,000 when comparing with that for the year 2010. In order to improve the performance of the division, the Group will not only upgrade the existing training courses with the latest CG technology, but also organise more training programmes in other areas in response to market demands. The Group will also enhance its marketing efforts to expand recruitment channels, strengthen the quality of training with a view to improve the employment rate of graduates. With an aim to expand the student base in the market, the Group has developed new module in addition to the existing intermediate to advance-level training programmes in order to diversify the product portfolio and establish a training system with elementary, intermediate and advance levels. In addition, the Group has introduced a new course on "traditional animation on hands".

The Group also continues to co-operate with prominent colleges in the PRC to organise "Training on Campus" and "Skills and Qualifications" training programmes for their students in achieving "One Course, Multiple Certifications", and to hone their practical skills to prepare for immediate employment after graduation. In the meantime, the Group tries to work on new production models using training resources in order to meet the domestic needs on intellectual property projects.

The Group's training centres in Shanghai, Shenzhen, Wuxi, Chongqing and Guangzhou provide a comprehensive geographical coverage in the PRC, with a view to stimulate and promote its training business to those areas with developed animation industry and further expand its training network.

### Cultural park

During the year, the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park has commenced with an aggregate construction fee of approximately HK$92.0 million. The Group has prepared a detailed construction plan with several renowned architects, consultants and building management companies for the redevelopment of other phases of the Pearl River Film Cultural Park which has been submitted to the relevant PRC authorities for approval. The redeveloped Pearl River Film Cultural Park includes, subject to approval, a commercial complex comprising cinema, shops and restaurants, and a new multi-storey office tower.

## BUSINESS REVIEW AND OUTLOOK *(Continued)*

### Cultural park *(Continued)*

Given the prime location of the Pearl River Film Cultural Park, the urban redevelopment policy in Guangzhou, the rapid economic growth and development of the retail and recreation market in the PRC, the Group is of the view that the whole redevelopment of the Pearl River Film Cultural Park will bring sustainable and steady income growth to the Group and improve its profitability. It provides a good opportunity for the Group to tap into the media entertainment and property development businesses in the PRC which has been growing rapidly.

### Digital content distribution and exhibitions & Deployment of digital cinema network – discontinued operations

As a result of an increase in orders of digital cinema equipment from customers in the PRC and worldwide during the period from 1 January 2011 to 6 September 2011, revenue from digital content distribution and exhibitions division reached HK$411,133,000.

Since more exhibitors participated in the virtual print fee arrangements and more digital cinema networks were deployed, segment revenue from deployment of digital cinema network division reached HK$9,516,000 for the period from 1 January 2011 to 6 September 2011.

On 8 July 2011, the Group signed a disposal agreement to dispose most of its interest in digital content distribution and exhibitions division and its entire interest in deployment of digital cinema network division. The Disposal was completed on 6 September 2011 and the Group received a consideration for the Disposal of HK$347.5 million. The Group now holds 11.93% of the issued share capital of GDC Tech and does not hold any interest in GDC DCN.

The Group considered that it was a good opportunity for the Group to realise part of its investment at the pinnacle of the industry's development, enabling the Group to further strengthen its current cash flows and liquidity positions and carry on business with sustainable and higher growth to finance the construction works of the redevelopment of various phases of the Pearl River Film Cultural Park once the detailed construction plan has been approved.


## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had bank balances and cash of HK$445.0 million (2010: HK$235.7 million) which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars, no pledged bank deposits (2010: HK$46.2 million) and structured deposits of HK$1.0 million (2010: HK$41.2 million). The increase was mainly attributable to the disposal of most of the Group's interest in digital content distribution and exhibitions division and its entire interest in deployment of digital cinema network division completed on 6 September 2011 and the Group received a consideration for the Disposal of HK$347.5 million.

As at 31 December 2011, the Group's borrowings amounted to HK$167.9 million, of which HK$24.7 million were repayable within twelve months from 31 December 2011 and HK$143.2 million were repayable after twelve months from 31 December 2011. The borrowings were mainly denominated in Renminbi and bore interest at market rates.

The Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 31 December 2011 was 20% (2010: 52%). As at 31 December 2011, the Group had a current ratio of 5.1 (2010: 1.8) based on current assets of HK$508.8 million and current liabilities of HK$100.4 million. The significant improvement in the gearing ratio was mainly attributable to the Group received a consideration for the Disposal of HK$347.5 million during the year.

## CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK$833.1 million as at 31 December 2011 (2010: HK$393.8 million). The increase was mainly attributable to profit for the year ended 31 December 2011 attributable to owners of the Company of HK$306.2 million, proceeds from issue of shares of HK$78.1 million, release of reserves upon disposal of subsidiaries of HK$31.1 million and exchange differences arising on translation of foreign operations of HK$21.3 million.

## MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

On 8 July 2011, the Company, GDC Holdings Limited, a wholly-owned subsidiary of the Company, and CAG Digital Investment Holdings Limited (the "Purchaser") entered into a disposal agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Tech, a non-wholly owned subsidiary of GDC Holdings, and 100% of the issued share capital of GDC DCN, a wholly-owned subsidiary of GDC Holdings, and GDC Holdings is required to procure 80% of the issued share capital of GDC Tech to be sold.

The Disposal was completed on 6 September 2011. The Group received a consideration for the Disposal of HK$347.5 million. The Group now holds approximately 11.93% of the issued share capital of GDC Tech and does not hold any interest in GDC DCN. Accordingly, operations of digital content distribution and exhibitions division and deployment of digital cinema network division were considered as discontinued operations since 6 September 2011.

## MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT *(Continued)*

Details of the Disposal are set out in the announcements of the Company dated 11 July 2011 and 7 September 2011 and the circular of the Company dated 17 August 2011.

Save as disclosed above, the Group did not have any material acquisitions, disposals and significant investment during the year ended 31 December 2011.

## CHARGE ON ASSETS

As at 31 December 2011, the Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK$267.8 million were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK$167.9 million. As at 31 December 2011, the Group had no unutilised banking facility.


## FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi, Euro dollars and United States dollars and incurs costs mainly in Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure, and thus has not implemented any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2011, the Group had no significant exposure under foreign exchange.

## CONTINGENT LIABILITIES

Saved as disclosed in note 40 to the consolidated financial statements about litigation proceedings, the Group had no significant contingent liabilities as at 31 December 2011.

## EMPLOYEES

As at 31 December 2011, the Group employed 459 (2010: 627) full time employees (excluding those employees 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 the employees of the Group.

During the year ended 31 December 2011, the Company and its subsidiaries have neither paid nor committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

The Company is committed to maintaining high standards of corporate governance 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 "CG Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2011.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with the Directors, the Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2011.

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

## BOARD OF DIRECTORS

### Composition

As at 31 December 2011, the board of Directors of the Company (the "Board ") comprises seven members including three Executive Directors, Mr. Li Shaofeng, 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, Prof. Japhet Sebastian Law and Mr. Hui Hung, Stephen (resigned on 23 March 2012). The Board is chaired by Mr. Li Shaofeng and has a balanced composition of Executive and Non-executive Directors such that there is a strong element of independence at the Board level, which facilitates independent judgement. The Board has a balance of skills and experience appropriate for the requirements of the businesses of the Group.

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 are 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 of the 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 person 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 fourteen 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 three days before the intended date of a Board meeting.

All Directors have access to the company secretary who is responsible for ensuring that the Board meeting's procedures are complied with and all applicable rules and regulations are followed.

The company secretary is responsible for taking minutes of the Board meetings and meetings of the Board committee, drafts and final versions of which would be sent to the Directors for their comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail relating to the matters considered by the Board and decisions reached, including any concerns raised by the 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 the Directors.

If a substantial shareholder of the Company 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 seven Board meetings during the year ended 31 December 2011. The Directors have made active contribution to the affairs of the Group and the seven 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 2011 are set out below:

## BOARD OF DIRECTORS *(Continued)*

### Board meetings *(Continued)*

| | Attended/Eligible to attend |
|---|---|
| ***Executive Directors*** | |
| Mr. Li Shaofeng *(Chairman)* | 7/7 |
| Mr. Chen Zheng | 7/7 |
| Mr. Jin Guo Ping | 7/7 |
| ***Non-executive Director*** | |
| Mr. Leung Shun Sang, Tony | 7/7 |
| ***Independent non-executive Directors*** | |
| Mr. Kwong Che Keung, Gordon | 7/7 |
| Prof. Japhet Sebastian Law | 6/7 |
| Mr. Hui Hung, Stephen *(resigned on 23 March 2012)* | 7/7 |

None of the meetings set out above was attended by any alternate Director.

### Access to information

The Directors may, upon reasonable request seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, provide independent professional advice to the 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 at least three days 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.

The term of the appointment of Non-executive Director and Independence non-executive Directors is for a period of three years respectively, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

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. The Directors have been informed of the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

## BOARD OF DIRECTORS *(Continued)*

### 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 during the year ended 31 December 2011. One of the Independent non-executive Directors, namely, Mr. Kwong Che Keung, Gordon has appropriate professional qualifications or accounting or related financial management expertise.

Following the resignation of Mr. Hui Hung, Stephen on 23 March 2012, the Company has only two Independent non-executive Directors and the Audit Committee comprises only two members, which falls below the minimum number as required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. In order to meet the requirement under the GEM Listing Rules, the Company is endeavouring to identify suitable candidate to fill the vacancies. Further announcement will be made by the Company when the additional Independent non-executive Director has been appointed.

### 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 the Chairman and the Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Li Shaofeng 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 the 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 information, which must be complete and reliable in a timely manner.

## COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") has been informed of the requirements under Rule 5.15 of the GEM Listing Rules and compliance with such requirement for the year ending 31 December 2012 will be reported in the corporate governance report in the Company's 2012 annual report.

## 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 2011, the members of the Executive Committee were as follows:

- Mr. Li Shaofeng *(Chairman)*
- Mr. Chen Zheng
- Mr. Jin Guo Ping

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 2011, four 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 set out its authorities and duties. The terms of reference of the Audit Committee are available on request and are published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website, respectively.

During the year ended 31 December 2011, the Audit Committee consists of three Independent non-executive Directors, namely, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Hui Hung, Stephen (resigned on 23 March 2012) and 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.

The Audit Committee held four meetings in the year 2011 with the management and the Company's internal audit manager, two of which with the 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 2010;
- the quarterly results of the Group for the three months ended 31 March 2011;
- the interim results of the Group for the six months ended 30 June 2011; and
- the quarterly results of the Group for the nine months ended 30 September 2011.

During the year 2011, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The attendance records of the Audit Committee meetings held in the year 2011 are set out below:

| | Attended/Eligible to attend |
|---|---|
| Mr. Kwong Che Keung, Gordon *(Chairman)* | 4/4 |
| Prof. Japhet Sebastian Law | 4/4 |
| Mr. Hui Hung, Stephen *(resigned on 23 March 2012)* | 4/4 |

None of the meetings set out above has attended by any alternate Director.

### Nomination Committee

A Nomination Committee of the Board was established in August 2003 with specific written terms of reference which set out clearly its authorities and duties. The terms of reference of the Nomination Committee are available on request and are published on the Stock Exchange's webite (www.hkexnews.hk) and Company's website, respectively.

During the year ended 31 December 2011, the Nomination Committee consists of five Directors, namely, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Hui Hung, Stephen (resigned on 23 March 2012). It is chaired by Mr. Li Shaofeng. The Independent non-executive Directors constitute the majority of the committee.

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 the Directors and succession planning for the 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 the 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 external independent professional advice if it considers necessary.

For the year ended 31 December 2011, one meeting of the Nomination Committee was held for reviewing the structure of the Board.

## BOARD COMMITTEES *(Continued)*

### Nomination Committee *(Continued)*

The attendance records of the Nomination Committee meetings held in the year 2011 are set out as follows:

| | **Attended/Eligible to attend** |
|---|---|
| Mr. Li Shaofeng *(Chairman)* | 1/1 |
| Mr. Leung Shun Sang, Tony *(Vice Chairman)* | 1/1 |
| Mr. Kwong Che Keung, Gordon | 1/1 |
| Prof. Japhet Sebastian Law | 1/1 |
| Mr. Hui Hung, Stephen *(resigned on 23 March 2012)* | 1/1 |

The meetings set out above was not attended by any alternate Director.

### 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 Stock Exchange's webite (www.hkexnews.hk) and the Company's website, respectively.

During the year ended 31 December 2011, the Remuneration Committee consists of five Directors namely, Mr. Leung Shun Sang, Tony, Mr. Li Shaofeng, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Hui Hung, Stephen (resigned on 23 March 2012). It is chaired by Mr. Leung Shun Sang, Tony. The Independent non-executive Directors constitute the majority of the Remuneration Committee.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- reviewing and approving performance-based remuneration;

- determining the specific remuneration packages of all Executive Directors and senior management and making recommendations to the Board of the remuneration of the Non-executive Directors and Independent non-executive Directors;

- reviewing and approving the compensation payable to the 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 determining his own remuneration.

The Remuneration Committee may consult the Chairman of the Board about its 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.

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

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 market practice, the competitive market position and individual performances.

For the year ended 31 December 2011, one meeting of the Remuneration Committee was held for, amongst other things:

- reviewing the remuneration and terms of service contracts of the Executive Directors;
- determining the bonuses of the Executive Directors of the Company for the year 2011; and
- making recommendations to the Board on the directors' fees of the Non-executive Director and the Independent non-executive Directors for the year 2012.

The attendance records of the Remuneration Committee meetings held in the year 2011 are set out as below:

| | **Attended/Eligible to attend** |
|---|---|
| Mr. Leung Shun Sang, Tony *(Chairman)* | 1/1 |
| Mr. Li Shaofeng *(Vice Chairman)* | 1/1 |
| Mr. Kwong Che Keung, Gordon | 1/1 |
| Prof. Japhet Sebastian Law | 1/1 |
| Mr. Hui Hung, Stephen *(resigned on 23 March 2012)* | 1/1 |

The meeting set out above was not attended by any alternate Director.

## INTERNAL CONTROL

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

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.

## INTERNAL CONTROL *(Continued)*

Business plans and budgets 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.

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 (the "I.A. Department") which assists the Executive Committee and the Audit Committee in discharging their internal control duties. The I.A. 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 I.A. 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.

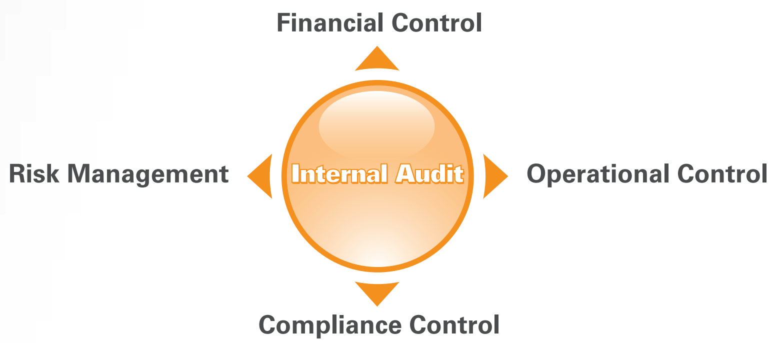
The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever-changing business environment. During the year ended 31 December 2011, the Board has been, through the Executive 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 has submitted representation letters to the Managing Director, in which they made representations as to compliance by themselves and their subordinates of key internal control systems for the year 2011. 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 CG Code, 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 2011.

## INTERNAL CONTROL *(Continued)*

### Internal control system


### Internal audit functions



## AUDITOR'S REMUNERATION

During the year ended 31 December 2011, 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 | 1,160 |
| Non-statutory audit services: | |
| Review on interim financial report | 240 |
| Special audit services | 600 |
| | 2,000 |

## 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, Messrs. 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 45 to 46 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. The Company's external auditor, where appropriate, is available to answer shareholders' queries at the meetings.

## SHAREHOLDERS RIGHTS

Voting at general meetings of the Company are conducted by way of poll in accordance with the GEM Listing Rules and the Bye-laws. The poll results will be published on the Stock Exchange's webite (www.hkexnews.hk) and the Company's website, respectively.

The detailed procedures for demanding and conducting a poll were explained by the chairman at general meetings.

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.

Pursuant to the Bye-laws, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary by mail to the Company's head office and principal place of business in Hong Kong, to require an special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The directors of the Company (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 2011.

## 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 45 and 22 to the consolidated financial statements, respectively.

## RESULTS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 47 to 128 of this annual report.

The board of Directors of the Company (the "Board") does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: 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 130 of this annual report.

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 19 to the consolidated financial statements.

Particulars of the investment properties of the Group as at the end of the reporting period are set out on pages 102 to 103 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.

Particulars of the building of the Group as at the end of the reporting period are set out on pages 101 to 102 of this annual report.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 36 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 51 to 52 of this annual report.

## DIRECTORS

The Directors during the year were as follows:

Mr. Li Shaofeng
Mr. Chen Zheng
Mr. Jin Guo Ping
Mr. Leung Shun Sang, Tony#
Mr. Kwong Che Keung, Gordon*
Prof. Japhet Sebastian Law*
Mr. Hui Hung, Stephen*

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

In accordance with clause 87(2) of the bye-laws of the Company, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony and Prof. Japhet Sebastian Law will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Kwong Che Keung, Gordon has been serving as an Independent non-executive Director of the Company more than nine years since April 2003. Pursuant to Code Provision A.4.3 of the Code on Corporate Governance Practices set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"): (a)having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence; and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders 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 GEM Listing Rules. 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 5 to 6.

## DIRECTORS' SERVICE CONTRACTS

Mr. Li Shaofeng has entered into a service contract with a wholly-owned subsidiary of the Company from 10 May 2010 to 31 December 2012 unless terminated by at least three months notice in writing served by either party prior to the expiry of the term; and each of Mr. Chen Zheng and Mr. Jin Guo Ping has entered into a service contract with a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011, 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, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2011 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 is involved in deciding their own remuneration.

The Group offers competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, the 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 the Directors and eligible employees, details of the schemes are set out in the "Share Option Schemes" section and note 38 to the consolidated financial statements.

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

### Long positions in the shares and underlying shares of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in the Company: Interests in shares | Interests under equity derivatives* | Total interests | Approximate percentage of issued share capital of the Company |
|---|---|---|---|---|---|
| Mr. Li Shaofeng | Beneficial owner | – | 12,950,000 | 12,950,000 | 0.85% |
| Mr. Chen Zheng | Beneficial owner | 208,728,200 | 11,360,000 | 220,088,200 | 14.50% |
| Mr. Jin Guo Ping | Beneficial owner | – | 2,590,000 | 2,590,000 | 0.17% |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 30,008,200 | 11,370,000 | 41,378,200 | 2.73% |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 10,800,820 | 1,780,000 | 12,580,820 | 0.83% |
| Prof. Japhet Sebastian Law | Beneficial owner | 3,000,000 | 1,290,000 | 4,290,000 | 0.28% |
| Mr. Hui Hung, Stephen | Beneficial owner | 800,820 | 1,780,000 | 2,580,820 | 0.17% |

* *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 "Share Option Schemes" section.*

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

Save as disclosed above, as at 31 December 2011, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## 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 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 which the Directors 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. Li Shaofeng | Shougang Concord Grand (Group) Limited ("Shougang Grand") *(Note 1)* | Cultural recreation content provision *(Note 2)* | Chairman |
| Mr. Leung Shun Sang, Tony | Shougang Grand *(Note 1)* | Cultural recreation content provision *(Note 2)* | Director |

*Notes:*

1. Shougang Grand indirectly held approximately 40.78% interests in the Company as at 31 December 2011.

2. Such businesses may be carried out through the subsidiaries or associates of Shougang Grand or by way of other forms of investments.

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

The Board is independent from the board of Shougang Grand. Coupled with the expertise and professional experience of 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 Shougang Grand.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO:

### Long positions in the shares of the Company

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

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

Save as disclosed above, as at 31 December 2011, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, 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 whom the Directors may consider, in their sole discretion, have contributed or contribute to the Group, share options to subscribe for shares of the Company.

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 83,020,000 which represents approximately 5.46% 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 155,094,554, representing approximately 10.22% 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 the shareholders of the Company in general meetings. Share options granted to a Director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates, are subject to approval in advance by the Independent non-executive Directors. In addition, any share options granted to a substantial shareholder of the Company or an Independent non-executive Director, or to any of their respective associates, in excess of in aggregate 0.1% of the shares 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 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 OPTION SCHEMES *(Continued)*

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

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

Details of movements in the share options under the Scheme during the year ended 31 December 2011 are as follows:

| Category or name of grantees | Number of shares options to subscribe for shares of the Company: Balance as at 01.01.2011 | Transferred to other category during the year | Transferred from other category during the year | Lapsed during the year | Balance as at 31.12.2011 | Date of grant | Exercise period | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Mr. Li Shaofeng | 12,950,000 | – | – | – | 12,950,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| Mr. Chen Zheng | 4,890,000 | – | – | – | 4,890,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | 6,470,000 | – | – | – | 6,470,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 11,360,000 | – | – | – | 11,360,000 | | | |
| Mr. Jin Guo Ping | 2,590,000 | – | – | – | 2,590,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| Mr. Leung Shun Sang, Tony | 4,900,000 | – | – | – | 4,900,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | 6,470,000 | – | – | – | 6,470,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 11,370,000 | – | – | – | 11,370,000 | | | |
| Mr. Kwong Che Keung, Gordon | 490,000 | – | – | – | 490,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | 1,290,000 | – | – | – | 1,290,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 1,780,000 | – | – | – | 1,780,000 | | | |
| Prof. Japhet Sebastian Law | 1,290,000 | – | – | – | 1,290,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| Mr. Hui Hung, Stephen | 490,000 | – | – | – | 490,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | 1,290,000 | – | – | – | 1,290,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 1,780,000 | – | – | – | 1,780,000 | | | |
| | 43,120,000 | – | – | – | 43,120,000 | | | |
| **Employees of the Group** | 9,900,000 | – | – | – | 9,900,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | 25,900,000 | (1,200,000)[1] | – | – | 24,700,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 35,800,000 | (1,200,000) | – | – | 34,600,000 | | | |
| **Other participants** | 4,900,000 | – | – | – | 4,900,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK$2.75 |
| | – | – | 1,200,000[1] | (800,000) | 400,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK$0.87 |
| | 4,900,000 | – | 1,200,000 | (800,000) | 5,300,000 | | | |
| | 83,820,000 | (1,200,000) | 1,200,000 | (800,000) | 83,020,000 | | | |

## SHARE OPTION SCHEMES *(Continued)*

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

*Note:*

1. Such share options were re-classified to the category of "Other Participants" upon those grantees ceased to be employees of the Group during the year ended 31 December 2011. According to the Scheme, such share options lapsed on the expiry of the three months period following the date of cessation of those grantees as employees of the Group.

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

Each of the Company and Shougang Grand has adopted the share option scheme of GDC Technology (previously a non wholly-owned subsidiary of the Company which ceased to be a subsidiary of the Company on 6 September 2011) ("GDC Technology Share Option Scheme") by a shareholders' resolution passed at their respective 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 whom 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.

## SHARE OPTION SCHEMES *(Continued)*

### (b) Share option scheme of a former subsidiary of the Company – GDC Technology Limited ("GDC Technology") *(Continued)*

Details of movements in the share options under the GDC Technology Share Option Scheme during the period from 1 January 2011 to 6 September 2011 (the "Relevant Period") are as follows:

| | Number of shares options to subscribe for shares of GDC Technology | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Category or name of grantees | Balance as at the beginning of the Relevant Period | Exercised during the Relevant Period | Lapsed during the Relevant Period | Cancelled during the Relevant Period | Balance as at the end of the Relevant Period | Date of grant | Exercise period | Exercise price per share |
| **Directors** | | | | | | | | |
| Mr. Li Shaofeng | 2,300,000 | (2,300,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| Mr. Chen Zheng | 1,650,000 | (1,650,000) | – | – | – | 02.11.2007 | 02.11.2007-01.11.2012 | HK$2.00 |
| | 1,700,000 | (1,700,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| | 3,350,000 | (3,350,000) | – | – | – | | | |
| Mr. Jin Guo Ping | 400,000 | (400,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| Mr. Leung Shun Sang, Tony | 1,000,000 | (1,000,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| Mr. Kwong Che Keung, Gordon | 165,000 | (165,000) | – | – | – | 02.11.2007 | 02.11.2007-01.11.2012 | HK$2.00 |
| | 200,000 | (200,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| | 365,000 | (365,000) | – | – | – | | | |
| Prof. Japhet Sebastian Law | 200,000 | (200,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| Mr. Hui Hung, Stephen | 165,000 | (165,000) | – | – | – | 02.11.2007 | 02.11.2007-01.11.2012 | HK$2.00 |
| | 200,000 | (200,000) | – | – | – | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| | 365,000 | (365,000) | – | – | - | | | |
| | 7,980,000 | (7,980,000) | – | – | – | | | |
| **Employees of the Group** | 1,650,000 | (1,650,000) | – | – | – | 02.11.2007 | 02.11.2007-01.11.2012 | HK$2.00 |
| | 6,000,000 | (3,466,000)[2] | (95,000)[1] | (2,000,000)[2] | 439,000 | 14.12.2010 | 14.12.2010-13.12.2015 | HK$2.00 |
| | 7,650,000 | (5,116,000) | (95,000) | (2,000,000) | 439,000 | | | |
| | 15,630,000 | (13,096,000) | (95,000) | (2,000,000) | 439,000 | | | |

## SHARE OPTION SCHEMES *(Continued)*

### (b) Share option scheme of a former subsidiary of the Company – GDC Technology Limited ("GDC Technology") *(Continued)*

*Notes:*

1. Such share options were lapsed when those grantees ceased to be employees of the Group during the Relevant Period.

2. Such share options were cancelled by mutual agreement between the grantee and GDC Technology on completion of disposal of GDC Technology by the Group in consideration for payment of cancellation fee of HK$1,643,800 by CAG Digital Investment Holdings Limited, the new shareholder of GDC Technology.

## 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$700,044,000.

## CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected transaction:

1) On 8 July 2011, the Company and GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, entered into an disposal agreement (the "Disposal Agreement") with CAG Digital Investment Holdings Limited ("CAG"), pursuant to which:

   (a) GDC Holdings would sell, or procure the sale by any of the shareholders of GDC Technology, a former non wholly-owned subsidiary of GDC Holdings and CAG would purchase such number of GDC Technology shares as was equal to 80% of GDC Technology shares in issued at completion date (or such greater percentage as GDC Holdings and the CAG may agreed);

   (b) CAG would pay a cancellation fee to holders of share options of GDC Technology (the "Options") who have agreed to cancellation of their Options; and

   (c) CAG would acquire from GDC Holdings its 100% equity interest in GDC Digital Cinema Network Limited ("GDC Digital Cinema Network"), a wholly-owned subsidiary of GDC Holdings.

## CONNECTED TRANSACTIONS

1) *(Continued)*

As at the date of entering into of the Disposal Agreement, Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Hui Hung, Stephen are the directors of the Company and the shareholders of GDC Technology. They had confirmed to GDC Holdings that they would participate in the disposal of GDC Technology shares and would sell all GDC Technology shares held by them to CAG at completion of the transaction. Therefore, they were connected persons of the Company. As GDC Digital Cinema Network was an indirect non-wholly owned subsidiary of the Company, GDC Digital Cinema Network are also a connected person of the Company.

Detail of the above connected transaction was disclosed in the announcement dated 11 July 2011 and 7 September 2011 and the circular dated 17 August 2011 of the Company.

2) On 12 July 2011, the Company entered into a subscription agreement (the "Subscription Agreement") with the subscribers pursuant to which the Company issued 223,000,000 new Shares of the Company at HK$0.438 per share to the subscribers on 4 October 2011. Among the subscribers, Mr. Chen Zheng is an Executive Director, Mr. Leung Shun Sang, Tony is a Non-executive Director and Mr. Kwong Che Keung, Gordon and Prof. Japhet Sebastian Law are Independent non-executive Directors and are connected persons of the Company.

Detail of the above connected transaction was disclosed in the announcements dated 12 July 2011 and 13 July 2011 and the circular dated 2 August 2011 of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers for the continuing operations accounted for approximately 43% of the revenue for the year and the largest customer included therein amounted to approximately 15%. Purchases from the Group's five largest suppliers for the continuing operations accounted for approximately 5% of the cost of sales for the year and the largest supplier included therein amounted to approximately 2%. Save as disclosed above, none of the Directors or any of their associates or any shareholders (which, to the best of the 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.

## CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 32 of this annual report.

## AUDITOR

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

By Order of the Board
**Li Shaofeng**
*Chairman*

Hong Kong, 22 March 2012

Deloitte.
德勤

**TO THE SHAREHOLDERS OF**
**GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED**
**環球數碼創意控股有限公司**
*(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 47 to 128, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about 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 of the consolidated financial statements that give a true and fair review in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 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
22 March 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7 | **94,677** | 35,920 |
| Cost of sales | | **(69,390)** | (32,824) |
| Gross profit | | **25,287** | 3,096 |
| Other income and gains | 10 | **14,735** | 6,524 |
| Gain on dissolution of an associate | 22 | **2,172** | – |
| Distribution costs and selling expenses | | **(6,716)** | (5,485) |
| Administrative expenses | | | |
| – Other administrative expenses | | **(58,573)** | (31,112) |
| – Share-based payment expense | | **–** | (18,560) |
| Finance costs | 11 | **(10,363)** | (1,503) |
| Other expenses and losses | 12 | **(3,509)** | (7,519) |
| Share of loss of an associate | | **(188)** | (106) |
| Loss before tax | | **(37,155)** | (54,665) |
| Income tax expense | 13 | **–** | (168) |
| Loss for the year from continuing operations | 14 | **(37,155)** | (54,833) |
| **Discontinued operations** | 15 | | |
| Profit for the year from discontinued operations | | **387,146** | 144,559 |
| Profit for the year | | **349,991** | 89,726 |
| Other comprehensive income: | | | |
| Exchange differences arising on translation of foreign operations | | **23,951** | 11,733 |
| Release of exchange reserve upon disposal of subsidiaries | | **(5,420)** | – |
| Release of exchange reserve upon dissolution of an associate | | **(2,992)** | – |
| Release of special reserve upon disposal of subsidiaries | | **36,568** | – |
| | | **52,107** | 11,733 |
| Total comprehensive income for the year | | **402,098** | 101,459 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Owners of the Company | | | |
| – Loss for the year from continuing operations | | **(34,635)** | (53,412) |
| – Profit for the year from discontinued operations | | **340,815** | 84,809 |
| | | **306,180** | 31,397 |
| Non-controlling interests | | | |
| – Loss for the year from continuing operations | | **(2,520)** | (1,421) |
| – Profit for the year from discontinued operations | | **46,331** | 59,750 |
| | | **43,811** | 58,329 |
| | | **349,991** | 89,726 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **355,657** | 41,491 |
| Non-controlling interests | | **46,441** | 59,968 |
| | | **402,098** | 101,459 |
| | | ***HK cents*** | *HK cents* |
| Earnings (loss) per share | *17* | | |
| **From continuing and discontinued operations** | | | |
| Basic | | **22.69** | 2.42 |
| Diluted | | **22.68** | 2.42 |
| **From continuing operations** | | | |
| Basic and diluted | | **(2.57)** | (4.12) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **306,878** | 312,578 |
| Investment properties | 19 | **170,605** | 95,395 |
| Prepaid lease payments | 20 | **6,029** | 5,875 |
| Available-for-sale investments | 21 | **85,010** | 588 |
| Interest in an associate | 22 | **–** | 22,196 |
| Other receivables and deposits | 23 | **24,691** | 42,024 |
| | | **593,213** | 478,656 |
| **Current assets** | | | |
| Inventories | 24 | **8,922** | 58,870 |
| Productions work in progress | 25 | **1,860** | 13,241 |
| Amounts due from customers for contract work | 26 | **4,898** | – |
| Trade receivables | 27 | **8,735** | 101,490 |
| Other receivables, prepayments and deposits | 23 | **10,894** | 54,828 |
| Prepaid lease payments | 20 | **136** | 129 |
| Held-for-trading investments | 28 | **27,396** | 2,566 |
| Structured deposits | 29 | **988** | 41,169 |
| Pledged bank deposits | 30 | **–** | 46,243 |
| Bank balances and cash | 30 | **444,976** | 235,653 |
| | | **508,805** | 554,189 |
| **Current liabilities** | | | |
| Advances from customers | 31 | **6,709** | 49,042 |
| Amounts due to customers for contract work | 26 | **1,423** | 165 |
| Trade payables | 32 | **1,276** | 45,563 |
| Other payables and accruals | 33 | **64,980** | 122,775 |
| Amount due to an associate | 34 | **–** | 21,611 |
| Tax liabilities | | **1,276** | 17,957 |
| Secured bank borrowings – due within one year | 35 | **24,691** | 45,342 |
| | | **100,355** | 302,455 |
| **Net current assets** | | **408,450** | 251,734 |
| **Total assets less current liabilities** | | **1,001,663** | 730,390 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 36 | **15,183** | 12,953 |
| Reserves | | **817,915** | 380,825 |
| Equity attributable to owners of the Company | | **833,098** | 393,778 |
| Non-controlling interests | 37 | **25,355** | 176,612 |
| **Total equity** | | **858,453** | 570,390 |
| **Non-current liability** | | | |
| Secured bank borrowing – due after one year | 35 | **143,210** | 160,000 |
| | | **1,001,663** | 730,390 |

The consolidated financial statements on pages 47 to 128 were approved and authorised for issue by the Board of Directors on 22 March 2012 and are signed on its behalf by:

**Li Shaofeng**
*DIRECTOR*

**Chen Zheng**
*DIRECTOR*

| | Share capital HK$'000 | Share premium reserve HK$'000 | Capital contribution reserve HK$'000 (Note a) | Contributed surplus reserve HK$'000 (Note b) | Statutory reserve HK$'000 (Note c) | Share options reserve HK$'000 | Exchange reserve HK$'000 | Special reserve HK$'000 (Note d) | Retained earnings HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 12,952 | – | 445 | 245,881 | 6,362 | 27,345 | 21,565 | (46,366) | 61,289 | 329,473 | 80,432 | 409,905 |
| Profit for the year | – | – | – | – | – | – | – | – | 31,397 | 31,397 | 58,329 | 89,726 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | – | 10,094 | – | – | 10,094 | 1,639 | 11,733 |
| Total comprehensive income for the year | – | – | – | – | – | – | 10,094 | – | 31,397 | 41,491 | 59,968 | 101,459 |
| Sub-total | 12,952 | – | 445 | 245,881 | 6,362 | 27,345 | 31,659 | (46,366) | 92,686 | 370,964 | 140,400 | 511,364 |
| Exercise of share options | 1 | 36 | – | – | – | (9) | – | – | – | 28 | – | 28 |
| Exercise of share options of a subsidiary | – | – | – | – | – | – | – | 4,226 | – | 4,226 | 2,374 | 6,600 |
| Lapse of share options granted | – | – | – | – | – | (4,792) | – | – | 4,792 | – | – | – |
| Non-controlling interests arising on acquisition of a subsidiary *(Note 39)* | – | – | – | – | – | – | – | – | – | – | 27,927 | 27,927 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | 18,560 | – | – | – | 18,560 | 5,911 | 24,471 |
| At 31 December 2010 | 12,953 | 36 | 445 | 245,881 | 6,362 | 41,104 | 31,659 | (42,140) | 97,478 | 393,778 | 176,612 | 570,390 |
| Profit for the year | – | – | – | – | – | – | – | – | 306,180 | 306,180 | 43,811 | 349,991 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | – | 21,321 | – | – | 21,321 | 2,630 | 23,951 |
| Release upon disposal of subsidiaries | – | – | – | – | – | – | (5,420) | 36,568 | – | 31,148 | – | 31,148 |
| Release upon dissolution of an associate | – | – | – | – | – | – | (2,992) | – | – | (2,992) | – | (2,992) |
| Total comprehensive income for the year | – | – | – | – | – | – | 12,909 | 36,568 | 306,180 | 355,657 | 46,441 | 402,098 |
| Sub-total | 12,953 | 36 | 445 | 245,881 | 6,362 | 41,104 | 44,568 | (5,572) | 403,658 | 749,435 | 223,053 | 972,488 |
| Shares issued | 2,230 | 75,820 | – | – | – | – | – | – | – | 78,050 | – | 78,050 |
| Exercise of share options of a subsidiary *(Note e)* | – | – | – | – | – | – | – | 5,572 | – | 5,572 | 20,620 | 26,192 |
| Lapse of share options granted | – | – | – | – | – | (214) | – | – | 214 | – | – | – |
| Lapse of share options granted by a subsidiary | – | – | – | – | – | – | – | – | 41 | 41 | (41) | – |
| Payment of dividends to non-controlling interests | – | – | – | – | – | – | – | – | – | – | (138,583) | (138,583) |
| Release upon disposal of subsidiaries | – | – | – | – | (5,682) | – | – | – | 5,682 | – | (79,694) | (79,694) |
| At 31 December 2011 | 15,183 | 75,856 | 445 | 245,881 | 680 | 40,890 | 44,568 | – | 409,595 | 833,098 | 25,355 | 858,453 |

*Notes:*

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

(b) Contributed surplus reserve represents (1) the difference between the nominal value of share capital of the Company and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002, amounting to approximately HK$40,271,000 and; (2) the transfer of the share premium reserve of approximately HK$589,670,000 as at 31 December 2007 to contributed surplus reserve which was applied to eliminate the deficit of the Company of approximately HK$384,060,000 as at 31 December 2007, in accordance to a special resolution passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008.

(c) As stipulated by the rules and regulations in the People's Republic of China (the "PRC", for the purpose of this consolidated financial statements, 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 (1) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary acquired from non-controlling shareholders during the year ended 31 December 2007 amounting to approximately HK$46,366,000 and; (2) the difference arising on dilution of interest in a subsidiary upon the exercise of the share options during the year ended 31 December 2011 of approximately HK$5,572,000 (2010: HK$4,226,000). This special reserve was released to profit and loss upon the disposal of the subsidiaries.

(e) The difference arising on dilution of interest in a subsidiary of approximately HK$5,572,000 (2010: HK$4,226,000) represents the excess of proceeds from exercise of share options of GDC Technology Limited ("GDC Tech"), a former indirect non-wholly owned subsidiary of the Company, of HK$26,192,000 received by GDC Tech over the carrying amount of non-controlling interests deemed to be disposed of amounting to approximately HK$20,620,000 (2010: HK$2,374,000). The amount is recognised in special reserve in the current year.

| | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | | |
| – continuing operations | **(37,155)** | (54,665) |
| – discontinued operations | **410,508** | 159,792 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **20,453** | 11,512 |
| Finance costs | **10,675** | 2,306 |
| Allowance for productions work in progress | **4,556** | – |
| Changes in fair value of held-for-trading investments | **3,509** | (168) |
| Written off of bad debts | **1,732** | – |
| Allowance for inventories | **1,264** | 6,406 |
| Loss on disposal of property, plant and equipment | **486** | 1,291 |
| Share of loss of an associate | **188** | 106 |
| Amortisation of prepaid lease payments | **132** | 126 |
| Share-based payment expense | **–** | 24,471 |
| Impairment of convertible loan receivable | **–** | 7,519 |
| Gain on disposal of subsidiaries | **(277,329)** | – |
| Dividend income | **(8,039)** | – |
| Gain on dissolution of an associate | **(2,172)** | – |
| Interest income | **(1,974)** | (4,072) |
| Operating cashflow before movements in working capital | **126,834** | 154,624 |
| Increase in inventories | **(28,909)** | (29,777) |
| Decrease (increase) in productions work in progress | **7,430** | (11,578) |
| (Increase) decrease in amounts due from customers for contract work | **(1,906)** | 6,000 |
| Increase in trade receivables | **(33,757)** | (59,071) |
| Increase in other receivables, prepayments and deposits | **(5,933)** | (36,278) |
| Increase in held-for-trading investments | **(28,339)** | – |
| (Decrease) increase in advances from customers | **(6,360)** | 12,405 |
| Increase (decrease) in amounts due to customers for contract work | **4,243** | (89) |
| (Decrease) increase in trade payables | **(116)** | 13,782 |
| Increase in other payables and accruals | **1,520** | 23,569 |
| Decrease in amounts due to fellow subsidiaries | **–** | (1,194) |
| Cash from operations | **34,707** | 72,393 |
| Income tax paid | **(12,394)** | (3,846) |
| NET CASH FROM OPERATING ACTIVITIES | **22,313** | 68,547 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of subsidiaries constituting discontinued operations | 15 | **275,831** | – |
| Redemption of structured deposits | | **43,202** | – |
| Proceeds from dissolution of an associate | | **22,242** | – |
| Withdrawal (deposit) of pledged bank deposits | | **10,024** | (44,218) |
| Dividend received | | **8,039** | – |
| Interest received | | **1,974** | 2,426 |
| Acquisition of a subsidiary | 39 | **–** | (63,149) |
| Additions in investment properties | | **(70,499)** | (8,934) |
| Purchase of property, plant and equipment | | **(31,729)** | (157,992) |
| Purchase of structured deposits | | **(988)** | (41,169) |
| Proceeds from redemption of a convertible loan receivable | | **–** | 113,382 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | **258,096** | (199,654) |
| FINANCING ACTIVITIES | | | |
| Dividend paid to non-controlling interests | | **(138,583)** | – |
| Repayment of bank loans | | **(47,582)** | – |
| Repayment of amount due to an associate | | **(22,678)** | – |
| Interest paid | | **(10,675)** | (6,244) |
| Proceeds from issue of the Company's shares | | **78,050** | – |
| New bank loans raised | | **35,008** | 194,754 |
| Proceeds from exercise of share options of a subsidiary | | **26,192** | 6,600 |
| Proceeds from issue of the Company's shares upon exercise of its share options | | **–** | 28 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | **(80,268)** | 195,138 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **200,141** | 64,031 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **235,653** | 166,604 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **9,182** | 5,018 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, COMPRISING BANK BALANCES AND CASH | | **444,976** | 235,653 |

The amounts of net cash flows attributable to the operating, investing and financing activities of discontinued operations are set out in Note 15.

## 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 of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (the "Group") is an associate of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a public listed company incorporated in Bermuda with its shares listed on the Stock Exchange. 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. During the year ended 31 December 2011, the Group disposed certain subsidiaries, namely GDC Technology Limited ("GDC Tech") and its subsidiaries (the "GDC Tech Group") and GDC Digital Cinema Network Limited ("GDC DCN") and its subsidiaries (the "GDC DCN Group") which were engaged in digital content distribution and exhibitions and deployment of digital cinema network. Accordingly, these operations are classified as discontinued operations (see Note 15 for details). As a result, the comparative figures of the statement of comprehensive income have been represented to conform with the current year's presentation.

The principal activities of the remaining Group are computer graphic ("CG") creation and production, films and television programme production, CG training courses and cultural park. The principal activities and other particulars of its principal subsidiaries as at 31 December 2011 are set out in Note 45.

### Change of functional currency

The functional currency is the currency of the primary economic environment in which the entity operates. In prior years, the functional currency of the Company was determined as USD.

With the disposal of GDC Tech Group and GDC DCN Group on 6 September 2011, the Company re-assessed its functional currency. Currently, the Group's principal activities are CG creation and production, CG training courses and property rental income which are mainly located in the PRC and the transactions are primarily denominated in RMB. As a result, the directors of the Company (the "Directors") determined that the functional currency of the Company has been changed from USD to RMB with effect from the date of disposal of the discontinued operations. The change of functional currency is applied prospectively from the date of change in accordance with Hong Kong Accounting Standard 21 "The Effect of Changes in Foreign Exchange Rates".

The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers for both years.

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

### New and revised HKFRSs applied in the current year

In the current year, the Group have applied, for the first time, a number of new or revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the financial year beginning on 1 January 2011. The application of these new and revised HKFRSs in the current year has had no material impact on the Group's financial positions for the current and prior years performance and/or on the disclosures set out in these consolidated financial statements.

### New and revised HKFRSs issued but not yet effective

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

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (Revised 2011) | Employee Benefits[2] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[2] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and that the adoption of HKFRS 9 will affect the classification and measurement of the Group's available-for-sale investments and may affect the classification and measurement of the Group's other financial assets but not of the Group's financial liabilities. Regarding the Group's available-for-sale investments and other financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

### New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards that are applicable to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

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

### HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors anticipate that the application of the other new and revised HKFRSs 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 in the Growth Enterprise Market 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, that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### *Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

#### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

### Basis of consolidation *(Continued)*

#### *Changes in the Group's ownership interests in existing subsidiaries (Continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

### Investment in an associate

An associate is an entity over which the Group 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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. 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. Additional losses are 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 cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

### Investment in an associate *(Continued)*

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### 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.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

### *Revenue from continuing operations only*

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 advances from customers.

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

Revenue from exhibition of digital motion movie, television series or movies is recognised when they are exhibited.

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

### Revenue recognition *(Continued)*

#### *Revenue from discontinued operations only*

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from provision of assembly and integration services in connection with deployment of digital cinema equipment under virtual print fee ("VPF") agreements is recognised when the services have been rendered and the equipment are installed and ready for their intended use.

Technical service income is recognised when the service is provided.

### Contracts for computer graphic ("CG") creation and production

Where the outcome of a contract for 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 relative to the estimated total contract costs.

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

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

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

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

### Property, plant and equipment

Property, plant and equipment including buildings held for use in supply of goods and services, or for administrative purposes (other than property under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than property under construction less their estimated residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purpose are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair values at the end of the reporting period, provided that the fair values of the properties under construction can be estimated reliably. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in profit or loss in the year in which it arises.

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

### Investment properties *(Continued)*

When the fair value of an investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or the construction is completed, whichever is earlier.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period 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 profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation 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 entities are translated into the presentation currency of the Company (i.e. Hong Kong dollars) using exchange rate prevailing at the end of the reporting period. Income and expenses item are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions.

When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change. An entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

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

### 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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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 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.

### Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense 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 temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets generally are recognised for all deductible temporary difference to the extent that it is probable that taxable profits 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.

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

### Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow 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. Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

### 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 activities (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.

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

### Research and development expenditure *(Continued)*

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. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

### Productions work in progress

Productions work in progress are stated at the lower of cost and net realisable value. Costs include all direct costs associated with the productions of television series or movies. Production costs are classified to television series or movies under inventories upon completion.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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 or financial liabilities at fair value through profit or loss ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

#### *Financial assets*

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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. The accounting policies adopted in respect of each category of financial assets are set out below.

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

### Financial instruments *(Continued)*

#### *Financial assets (Continued)*

*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 other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

*Financial assets at fair value through profit or loss*

Financial asset at FVTPL represents held-for-trading investments and those designated as at FVTPL on initial recognition. 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.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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.

## 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. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposits and bank balances) 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 any of the categories of financial assets set out above.

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. (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 considered to be 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
- breach of contract, such as 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, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

## 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 a 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

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 instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*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 fees and points 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.

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

### Financial instruments *(Continued)*

#### *Financial liabilities and equity instruments (Continued)*

*Financial liabilities*

Financial liabilities including trade payables, other payables, amount due to an associate and secured bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

*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.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 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 recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

When 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

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

### 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 received 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 options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

When 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

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 within the next financial year.

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

### Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2011, the carrying amount of property, plant and equipment is HK$306,878,000 (2010: HK$312,578,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in 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 strengthen 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 secured bank borrowings disclosed in Note 35, and total equity, comprising share capital and reserves.

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. This percentage as at 31 December 2011 and 2010 were as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total debt (1) | **167,901** | 205,342 |
| Equity (2) | **858,453** | 570,390 |
| Total debt to equity percentage (%) | **20** | 36 |

The Directors consider that the Group maintains a healthy capital ratio as at 31 December 2011 and 2010 as the Group has excess of current assets over current liabilities.

*Notes:*

(1) Total debt equals to secured bank borrowings.

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

## 6. FINANCIAL INSTRUMENTS

### 6a. Categories of financial instruments

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale investments | **85,010** | 588 |
| Financial assets at FVTPL | | |
| Held-for-trading investments | **27,396** | 2,566 |
| Structured deposits designed as at FVTPL | **988** | 41,169 |
| Loans and receivables (including cash and cash equivalents) | **458,972** | 435,930 |
| **Financial liabilities** | | |
| Amortised cost | **224,467** | 349,963 |

### 6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, other receivables, held-for-trading investments, structured deposits, pledged bank deposits, bank balances, trade payables, other payables, amount due to an associate and secured bank borrowings. 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 Renminbi, Euro dollars and USD, and incurs costs mainly in Renminbi and Hong Kong dollars which are primarily transacted using functional currencies of the respective group entities after the disposal of GDC Tech Group and GDC DCN Group. 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 2011 and 2010, the Group has no significant foreign currency exposure and therefore, no sensitivity analysis is presented.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### 6b. 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 variable-rate bank balances as disclosed in note 30 and variable-rate secured bank borrowing as disclosed in Note 35, which carry interest at prevailing market interest rates and the People's Bank of China Renminbi Lending Rate, respectively.

As at 31 December 2010, the Group's fair value interest rate risk related primarily to its fixed rate other receivables related to the VPF Arrangement, secured fixed-rate borrowings as disclosed in Notes 23 and 35. The Group did 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. As at 31 December 2011, the Group did not have other receivables related to VPF Arrangement after the Disposal as set out in Note 15, and hence the Group has no fair value interest rate risk related to these other receivables.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate secured bank borrowing and bank balances at the end of the reporting period. The analysis is prepared assuming the balances outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2010: 100 basis points) increase or decrease and 30 basis points (2010: 30 basis points) increase or decrease are used for variable-rate secured bank borrowing and bank balances, respectively and represents management's assessment of the reasonably possible change in interest rate. As at 31 December 2011, bank balances carry interest at market rates which range from 0.01% to 6% per annum (2010: 0.01% to 1.35% 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 rates is not included in the sensitivity analysis.

Variable-rate borrowing

If interest rates had been 100 basis points (2010: 100 basic points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK$1,259,000 (2010: HK$1,218,000).

Variable-rate bank balances

If interest rates had been 30 basis points (2010: 30 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year would increase by approximately HK$130,000 (2010: HK$49,000).

The increase in the Group's sensitivity to interest rates during the current year is mainly due to the increase in variable-rate secured bank borrowing.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### 6b. 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 equity price risk. However, the management will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has 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% (2010: 5%) higher/lower, post-tax profit for the year ended 31 December 2011 would increase/decrease by approximately HK$1,027,000 (2010: HK$96,000) as a result of the changes in fair value of held-for-trading investments.

*Credit risk*

As at 31 December 2011 and 2010, 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 credit risk on structured deposits, 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 USA and PRC in 2011, respectively, which accounted for approximately 70% (2010: 43%) and 30% (2010: 47%) of the total trade receivables.

The Group has concentration of credit risk by counterparty as approximately 23% (2010: 30%) and approximately 70% (2010: 64%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively, which are major companies in the CG creation and production segment (2010: digital cinema segment). The customers are leading multinational animation producers with many different animation projects in progress. They have good repayment history with no record of late payment.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### 6b. Financial risk management objectives and policies *(Continued)*

*Credit risk (Continued)*

As at 31 December 2010, the Group's credit risk was also attributable to other receivables related to the VPF Arrangement as disclosed in Note 23. The Group's concentration of credit risk for other receivables related to the VPF Arrangement by geographical locations was entirely in Hong Kong. The Group's concentration of credit risk from the Group's largest VPF customer and the five largest VPF customers was approximately 7% and 31% of the total other receivables related to the VPF Arrangement, respectively. The management of the Group reviewed the recoverability of the amount at the end of the reporting period and considered the repayment history and credit quality. In this regards, the Directors considered that the Group's credit risk was significantly reduced. As at 31 December 2011, the Group did not have other receivables related to the VPF Arrangement after the Disposal as set out in Note 15.

*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 bank borrowings and ensure compliance with loan covenants.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. 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 | Repayable on demand or less than 3 months | 3 months to 1 year | 1 - 5 years | Over 5 years | Total undiscounted cash flows as at 31.12.2011 | Carrying amount at 31.12.2011 |
|---|---|---|---|---|---|---|---|
| | % | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2011** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 666 | 13 | 597 | – | 1,276 | 1,276 |
| Other payables | – | 1,942 | 53,348 | – | – | 55,290 | 55,290 |
| Secured bank borrowings – variable rate | 6 | 6,269 | 19,397 | 174,599 | – | 200,265 | 167,901 |
| | | 8,877 | 72,758 | 175,196 | – | 256,831 | 224,467 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### 6b. Financial risk management objectives and policies *(Continued)*

*Liquidity risk (Continued)*

*Liquidity tables (Continued)*

| | Weighted average effective interest rate % | Repayable on demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 - 5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows as at 31.12.2010 HK$'000 | Carrying amount at 31.12.2010 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 45,027 | 536 | – | – | 45,563 | 45,563 |
| Other payables | – | 5,617 | 71,830 | – | – | 77,447 | 77,447 |
| Amount due to an associate | – | 21,611 | – | – | – | 21,611 | 21,611 |
| Secured bank borrowings | | | | | | | |
| – variable rate | 6 | – | 2,353 | 147,779 | 42,741 | 192,873 | 162,352 |
| – fixed rate | 2 | 43,850 | – | – | – | 43,850 | 42,990 |
| | | 116,105 | 74,719 | 147,779 | 42,741 | 381,344 | 349,963 |

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.

### 6c. 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 is determined with reference to quoted market bid prices; and

- the fair value of the other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### 6c. Fair value *(Continued)*

*Fair value measurements recognised in the consolidated 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.
- 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).

| | **2011** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Financial assets at FVTPL** | | | | |
| Held-for-trading investments | **27,396** | **–** | **–** | **27,396** |
| Structured deposits | **–** | **988** | **–** | **988** |
| | **27,396** | **988** | **–** | **28,384** |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial assets at FVTPL** | | | | |
| Held-for-trading investments | 2,566 | – | – | 2,566 |
| Structured deposits | – | 41,169 | – | 41,169 |
| | 2,566 | 41,169 | – | 43,735 |

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

## 7. REVENUE

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

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Revenue from contracts for CG creation and production | **53,517** | 12,997 |
| Rental income | **23,608** | 788 |
| Training fee | **17,552** | 22,135 |
| | **94,677** | 35,920 |

## 8. SEGMENT INFORMATION

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

- CG creation and production – CG creation, production and exhibition of motion pictures and production of television series and movies as well as property rental income
- CG training courses – provision of CG and animation training
- Cultural park – media entertainment and related commercial property development

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

Upon disposal of GDC Tech Group and GDC DCN Group on 6 September 2011, two operating segments, namely digital content distribution and exhibitions and deployment of digital cinema network, were discontinued in the current year. The segment information reported below does not include any amounts for these discontinued operations, which are described in more details in Note 15.

## 8. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results

The following is an analysis of the Group's revenues and results from continuing operations by operating segments:

*For the year ended 31 December 2011*

**Continuing operations**

| | CG creation and production HK$'000 | CG training courses HK$'000 | Cultural park HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | **76,252** | **17,552** | **873** | **94,677** |
| Segment result | **(14,234)** | **–** | **(5,152)** | **(19,386)** |
| Unallocated income | | | | **8,516** |
| Unallocated expenses | | | | **(28,269)** |
| Share of loss of an associate | | | | **(188)** |
| Gain on dissolution of an associate | | | | **2,172** |
| Loss before tax from continuing operations | | | | **(37,155)** |

*For the year ended 31 December 2010*

**Continuing operations**

| | CG creation and production HK$'000 | CG training courses HK$'000 | Cultural park HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | 12,997 | 22,135 | 788 | 35,920 |
| Segment result | (21,193) | 4,915 | (5,302) | (21,580) |
| Unallocated income | | | | 1,815 |
| Unallocated expenses | | | | (16,234) |
| Share of loss of an associate | | | | (106) |
| Share-based payment expense | | | | (18,560) |
| Loss before tax from continuing operations | | | | (54,665) |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment result represents the profit earned by or loss incurred from each segment without allocation of investment income, central administration costs, share of loss of an associate, gain on dissolution of an associate and share-based payment expense recognised by the Company, the Group's management companies and investment holding companies. This is the measure reported to the CODM of the Company for the purposes of resources allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers.

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

### Segment assets and liabilities

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

*At 31 December 2011*

| | CG creation and production HK$'000 | CG training courses HK$'000 | Cultural park HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | **672,366** | **15,921** | **227,427** | **915,714** |
| Unallocated assets | | | | |
| – Available-for-sale investments | | | | **85,010** |
| – Held-for-trading investments | | | | **27,396** |
| – Bank balances and cash | | | | **71,402** |
| – Others | | | | **2,496** |
| Consolidated total assets | | | | **1,102,018** |
| Liabilities | | | | |
| Segment liabilities | **219,343** | **8,277** | **1,059** | **228,679** |
| Unallocated liabilities | | | | **14,886** |
| Consolidated total liabilities | | | | **243,565** |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

*At 31 December 2010*

| | CG creation and production *HK$'000* | CG training courses *HK$'000* | Cultural park *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 375,628 | 24,592 | 133,660 | 533,880 |
| Interest in an associate | | | | 22,196 |
| Unallocated assets | | | | |
| – Held-for-trading investments | | | | 2,566 |
| – Bank balances and cash | | | | 1,667 |
| – Others | | | | 2,243 |
| Assets relating to discontinued operations | | | | 470,293 |
| Consolidated total assets | | | | 1,032,845 |
| Liabilities | | | | |
| Segment liabilities | 232,536 | 10,503 | 61 | 243,100 |
| Amount due to an associate | | | | 21,611 |
| Unallocated liabilities | | | | 2,714 |
| Liabilities relating to discontinued operations | | | | 195,030 |
| Consolidated total liabilities | | | | 462,455 |

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

– all assets are allocated to the operating segments other than interest in an associate, unallocated assets attributed to the Company, the Group's management companies and investment holding companies and assets related to discontinued operations.

– all liabilities are allocated to the operating segments other than amount due to an associate, unallocated liabilities attributed to the Company, the Group's management companies and investment holding companies and liabilities related to discontinued operations.

## 8. SEGMENT INFORMATION *(Continued)*

### Other segment information

*For the year ended 31 December 2011*

**Continuing operations**

| | Amounts included in the measure of segment profit or loss or segment assets | | | | | |
|---|---|---|---|---|---|---|
| | CG creation and production HK$'000 | CG training courses HK$'000 | Cultural park HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated total HK$'000 |
| Additions to non-current assets *(Note)* | 6,902 | 1,317 | 71,819 | 80,038 | 1,812 | 81,850 |
| Depreciation of property, plant and equipment | 14,971 | 2,285 | 262 | 17,518 | 442 | 17,960 |
| Allowance for inventories | 1,264 | – | – | 1,264 | – | 1,264 |
| Allowance for productions work in progress | 4,556 | – | – | 4,556 | – | 4,556 |
| Loss on disposal of property, plant and equipment | – | – | 161 | 161 | – | 161 |
| Amortisation of prepaid lease payments | 132 | – | – | 132 | – | 132 |
| Interest income | 1,953 | 20 | – | 1,973 | 1 | 1,974 |

*For the year ended 31 December 2010*

**Continuing operations**

| | Amounts included in the measure of segment profit or loss or segment assets | | | | | |
|---|---|---|---|---|---|---|
| | CG creation and production HK$'000 | CG training courses HK$'000 | Cultural park HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated total HK$'000 |
| Additions to non-current assets *(Note)* | 193,166 | 7,197 | 10,238 | 210,601 | 1,186 | 211,787 |
| Depreciation of property, plant and equipment | 7,089 | 2,063 | 186 | 9,338 | 358 | 9,696 |
| Allowance for inventories | 6,318 | – | – | 6,318 | – | 6,318 |
| Loss on disposal of property, plant and equipment | – | 1,091 | – | 1,091 | – | 1,091 |
| Amortisation of prepaid lease payments | 126 | – | – | 126 | – | 126 |
| Interest income | 632 | 37 | 12 | 681 | 1,647 | 2,328 |
| Impairment of convertible loan receivable | – | – | – | – | 7,519 | 7,519 |
| Share-based payment expense | – | – | – | – | 18,560 | 18,560 |

*Note:* Non-current assets exclude available-for-sale investments, interest in an associate, other receivables and assets related to discontinued operations.

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical information

The Group's operations are located in the PRC and Hong Kong.

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

| | Revenue from external customers | | Non-current assets *(Note)* | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| PRC | **41,571** | 22,923 | **480,883** | 405,326 |
| Denmark | **29,512** | – | **–** | – |
| USA | **19,580** | 8,862 | **–** | – |
| Hong Kong | **–** | – | **2,629** | 1,196 |
| Italy | **1,993** | 3,508 | **–** | – |
| Other regions | **2,021** | 627 | **–** | – |
| | **94,677** | 35,920 | **483,512** | 406,522 |

*Note:* Non-current assets exclude available-for-sale investment, interest in an associate, other receivables and assets related to discontinued operations.

### Information about major customer

Revenue from the largest customer contributing over 10% (2010: two) of the total revenue of the Group from continuing operations for the year ended 31 December 2011 is approximately HK$14,625,000 (2010: HK$9,550,000 and HK$3,697,000 respectively for the two largest customers) under CG creation and production segment.

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### From continuing and discontinued operations

### (a) *Directors' emoluments*

The emoluments paid or payable to each of the 7 (2010: 8) Directors are as follows:

*For the year ended 31 December 2011*

| | 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. Li Shaofeng | – | 3,500 | – | 3,500 |
| Mr. Chen Zheng | – | 6,000 | 12 | 6,012 |
| Mr. Jin Guo Ping | – | 1,300 | 12 | 1,312 |
| | – | 10,800 | 24 | 10,824 |
| 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 | 10,800 | 24 | 11,734 |

No Directors waived any emoluments for the year ended 31 December 2011.

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

### From continuing and discontinued operations *(Continued)*

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

*For the year ended 31 December 2010*

| | Fees<br>*HK$'000* | Share-based payments<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Retirement benefits schemes contributions<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| Executive Directors: | | | | | |
| Mr. Li Shaofeng *(Note)* | – | 5,944 | 1,000 | – | 6,944 |
| Mr. Chen Zheng | – | 3,278 | 2,860 | 12 | 6,150 |
| Mr. Jin Guo Ping | – | 1,155 | 1,300 | 12 | 2,467 |
| Mr. Cao Zhong *(Note)* | – | – | – | – | – |
| | – | 10,377 | 5,160 | 24 | 15,561 |
| Non-executive Director: | | | | | |
| Mr. Leung Shun Sang, Tony | 190 | 2,887 | – | – | 3,077 |
| Independent non-executive Directors: | | | | | |
| Mr. Kwong Che Keung, Gordon | 240 | 576 | – | – | 816 |
| Mr. Hui Hung, Stephen | 240 | 576 | – | – | 816 |
| Prof. Japhet Sebastian Law | 240 | 576 | – | – | 816 |
| | 720 | 1,728 | – | – | 2,448 |
| | 910 | 14,992 | 5,160 | 24 | 21,086 |

*Note:* Mr. Cao Zhong resigned and Mr. Li Shaofeng was appointed as director on 10 May 2010, respectively.

For the year ended 31 December 2010, Mr. Cao Zhong waived emoluments of approximately HK$654,000. No other Directors waived any emoluments for the year ended 31 December 2010.

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

### From continuing and discontinued operations *(Continued)*

### *(b) Employees' emoluments*

Of the five individuals with the highest emoluments in the Group, two (2010: three) are the Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2010: two) individuals are as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Salaries and other benefits | **6,194** | 4,532 |
| Share-based payments | **–** | 4,352 |
| Retirement benefits schemes contributions | **69** | 13 |
| | **6,263** | 8,897 |

The emoluments of the above three (2010: two) individuals are within the following bands:

| | **2011**<br>**Number of employees** | 2010<br>Number of employees |
|---|---|---|
| HK$1,000,001 – HK$1,500,000 | **1** | – |
| HK$2,000,001 – HK$2,500,000 | **1** | – |
| HK$2,500,001 – HK$3,000,000 | **1** | – |
| HK$3,000,001 – HK$3,500,000 | **–** | 1 |
| HK$5,500,001 – HK$6,000,000 | **–** | 1 |
| | **3** | 2 |

## 10. OTHER INCOME AND GAINS

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| **Continuing operations** | | |
| Dividend income from available-for-sale investments | **8,039** | – |
| Government grants *(Note)* | **3,097** | 3,905 |
| Interest income | **1,974** | 2,328 |
| Changes in fair value of held-for-trading investments | **–** | 168 |
| Others | **1,625** | 123 |
| | **14,735** | 6,524 |

*Note:* The government grants are issued by the relevant PRC authorities to certain of the Group's subsidiaries to subsidise CG production, exhibition of motion pictures and CG training in the PRC. There are no specific conditions attached to the grants or the conditions attached are satisfied. The Group has recognised the grants upon receipt.

## 11. FINANCE COSTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on: | | |
| Bank borrowing | | |
| – wholly repayable within five years | **10,363** | – |
| – not wholly repayable within five years | **–** | 5,441 |
| Less: amount capitalised in the cost of qualifying assets | **–** | (3,938) |
| | **10,363** | 1,503 |

## 12. OTHER EXPENSES AND LOSSES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Changes in fair value of held-for-trading investments | **3,509** | – |
| Impairment of convertible loan receivable | **–** | 7,519 |
| | **3,509** | 7,519 |

## 13. INCOME TAX EXPENSE

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| The income tax expense comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **–** | 168 |

No provision for Hong Kong Profits Tax has been made in the consolidated statement of comprehensive income for both years as the Group had no assessable profit from continuing operations arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards, except for those subsidiaries described below.

## 13. INCOME TAX EXPENSE *(Continued)*

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate progressively increased to 25% over a five-year transitional period. The tax concession for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the EIT Law based on the revised income tax rate. For the year ended 31 December 2011, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 24% to 25% (2010: 22% to 25%).

The income tax expense for the year from continuing operations can be reconciled to the loss before tax from continuing operations per the consolidated statement of comprehensive income as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Loss before tax from continuing operations | **(37,155)** | (54,665) |
| Tax calculated at PRC EIT rate of 25% (2010: 25%) | **(9,289)** | (13,666) |
| Tax effect of income not taxable for tax purposes | **(2,021)** | (84) |
| Tax effect of expenses not deductible for tax purpose | **1,691** | 8,073 |
| Tax effect of tax losses not recognised | **10,165** | 6,034 |
| Utilisation of tax losses previously not recognised | **(1,031)** | (1,106) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **485** | 917 |
| Income tax expense for the year from continuing operations | **–** | 168 |

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

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Estimated tax losses that may be carried forward | **87,863** | 68,849 |

The estimated tax loss in 2010 included approximately HK$17,522,000 relating to the subsidiaries disposed of as set out in Note 15. Due to the disposal, the estimated tax loss related to the disposed subsidiaries has been excluded as at 31 December 2011.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the 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$358,000 as at 31 December 2011 (2010: HK$178,000,000) 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. The significant decrease of temporary difference is due to the disposal of subsidiaries as set out in Note 15, which contributed HK$177,642,000 to the Group as at 31 December 2010.

## 14. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Loss for the year from continuing operations has been arrived at after charging: | | |
| Staff costs, including directors' emoluments *(Note 9(a))*: | | |
| – Salaries, wages and other benefits | **82,323** | 47,416 |
| – Retirement benefit scheme contributions | **2,115** | 2,045 |
| – Share-based payment expense | **–** | 18,560 |
| Total staff costs | **84,438** | 68,021 |
| Less: amounts included in contract costs | **(27,491)** | (480) |
| amounts included in productions work in progress | **(234)** | (5,347) |
| | **56,713** | 62,194 |
| Allowance for inventories | **1,264** | 6,318 |
| Allowance for productions work in progress | **4,556** | – |
| Amortisation of prepaid lease payments | **132** | 126 |
| Auditor's remuneration | **1,480** | 704 |
| Contract costs recognised as an expense: | | |
| Staff costs | **25,367** | 19,467 |
| Others | **26,112** | 2,308 |
| | **51,479** | 21,775 |
| Depreciation of property, plant and equipment | **24,008** | 11,484 |
| Less: amounts included in contract costs | **(5,985)** | (125) |
| amounts included in productions work in progress | **(63)** | (1,663) |
| | **17,960** | 9,696 |
| Exchange loss, net | **2,195** | 261 |
| Loss on disposal of property, plant and equipment | **161** | 1,091 |
| Minimum lease payments under operating leases for land and buildings | **5,034** | 3,314 |
| Less: amounts included in contract costs | **(1,942)** | (20) |
| amounts included in productions work in progress | **(13)** | (186) |
| | **3,079** | 3,108 |

## 15. DISCONTINUED OPERATIONS

On 8 July 2011, the Company, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, and CAG Digital Investment Holdings Limited (the "Purchaser"), an affiliate of The Carlyle Group, entered into a disposal agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Tech and 100% of the issued share capital of GDC DCN in which GDC Holdings is required to procure 80% of the issued share capital of GDC Tech to be sold (the "Disposal").

The Disposal was completed on 6 September 2011. The Group received a consideration for the Disposal of approximately HK$347,547,000. The Group now holds approximately 11.93% of the issued share capital of GDC Tech (see Note 21) and does not hold any interest in GDC DCN. Accordingly, the two operating segments, namely digital content distribution and exhibitions and deployment of digital cinema network run by GDC Tech Group and GDC DCN Group, were considered as discontinued operations since 6 September 2011.

Details of the Disposal are set out in the announcements of the Company dated 11 July 2011 and 7 September 2011 and the circular of the Company dated 17 August 2011.

The profit for the year from the discontinued operations is analysed as follows:

| | **1.1.2011 to 6.9.2011** | 1.1.2010 to 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit from discontinued operations | **109,817** | 144,559 |
| Gain on disposal of discontinued operations | **277,329** | – |
| | **387,146** | 144,559 |

The results of the discontinued operations for the period from 1 January 2011 to 6 September 2011, which has been included in the consolidated statement of comprehensive income, were as follows. No separate disclosure of the results of each of GDC Tech Group and GDC DCN Group has been made as the results attributable to GDC DCN Group are insignificant.

## 15. DISCONTINUED OPERATIONS *(Continued)*

| | **1.1.2011 to 6.9.2011** | 1.1.2010 to 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **420,649** | 548,099 |
| Cost of sales | **(217,128)** | (302,768) |
| Gross profit | **203,521** | 245,331 |
| Other income and gains | **3,122** | 3,187 |
| Distribution costs and selling expenses | **(19,608)** | (15,581) |
| Administrative expenses | | |
| – Other administrative expenses | **(46,320)** | (57,174) |
| – Share-based payment expense | **–** | (5,911) |
| Finance costs | **(312)** | (803) |
| Research and development costs | **(7,224)** | (9,257) |
| Profit before tax | **133,179** | 159,792 |
| Income tax expense | **(23,362)** | (15,233) |
| Profit from discontinued operations | **109,817** | 144,559 |

The profit from discontinued operations has been arrived at after charging (crediting) the following:

| | **1.1.2011 to 6.9.2011** | 1.1.2010 to 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff costs, including directors' emoluments *(Note 9(a))*: | | |
| – Salaries, wages and other benefits | **31,489** | 40,223 |
| – Retirement benefit scheme contributions | **1,115** | 1,288 |
| – Share-based payment expense | **–** | 5,911 |
| Total staff costs | **32,604** | 47,422 |
| Allowance for inventories | **–** | 88 |
| Written off of bad debts | **1,732** | – |
| Auditor's remuneration | **299** | 447 |
| Cost of inventories recognised as an expense | **159,322** | 228,076 |
| Depreciation of property, plant and equipment | **2,493** | 1,816 |
| Loss on disposal of property, plant and equipment | **325** | 200 |
| Minimum lease payments under operating leases for land and buildings | **4,518** | 4,616 |
| Exchange gain, net | **(637)** | (64) |

## 15. DISCONTINUED OPERATIONS *(Continued)*

The combined net assets of GDC Tech Group and GDC DCN Group at the date of the Disposal were as follows. No separate disclosure of the net assets of each of GDC Tech Group and GDC DCN Group has been made as the net assets attributable to GDC DCN Group are insignificant.

| | *HK$'000* |
|---|---|
| Property, plant and equipment | 24,834 |
| Other receivables, prepayments and deposits | 69,038 |
| Inventories | 78,360 |
| Trade receivables | 127,362 |
| Pledged bank deposits | 38,503 |
| Bank balances and cash | 59,350 |
| Trade payables | (44,361) |
| Advances from customers | (38,048) |
| Other payables and accruals | (84,210) |
| Tax liabilities | (28,429) |
| Secured bank borrowings | (35,008) |
| | 167,391 |

The gain on disposal of discontinued operations is calculated as follows:

| | *HK$'000* |
|---|---|
| Gross proceeds from disposal | 347,547 |
| Fair value of the remaining 11.93% equity interest in GDC Tech on 6 September 2011 *(Note a) (Note 21)* | 84,393 |
| Less: Net assets attributable to GDC Tech Group and GDC DCN Group | (167,391) |
| Non-controlling interests | 79,694 |
| Release of exchange and special reserves to profit or loss | (31,148) |
| Gain on disposal before associated costs and transaction costs | 313,095 |
| Associated costs *(Note b)* | (23,400) |
| Transaction costs | (12,366) |
| Gain on disposal | 277,329 |
| Net cash inflow arising on disposal: | |
| Gross proceeds from disposal, net of transaction costs | 335,181 |
| Less: bank balances and cash disposed of | (59,350) |
| | 275,831 |

*Note a:* The fair value of the remaining 11.93% equity interest in GDC Tech is determined by using the share price sold to Purchaser on 6 September 2011 (i.e. HK$2.836 per share) multiplied by the remaining number of shares that the Group held after the Disposal (i.e. 29,757,868 shares).

*Note b:* Associated costs represented compensation payable of HK$23,400,000 (equivalent to US$3,000,000) as set out in the agreement entered into by the Group with the management of GDC Tech Group pursuant to the Disposal, in which HK$15,600,000 (equivalent to US$2,000,000) has not settled and included in other payable at 31 December 2011.

## 15. DISCONTINUED OPERATIONS *(Continued)*

Cash flows from discontinued operations:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net cash from operating activities | **61,609** | 67,388 |
| Net cash from (used in) investing activities | **125,522** | (88,788) |
| Net cash (used in) from financing activities | **(282,356)** | 76,630 |
| Effect of foreign exchange rate changes | **3,440** | 4,012 |
| Net cash flows | **(91,785)** | 59,242 |

## 16. DIVIDENDS

No dividend is paid, declared or proposed during the year ended 31 December 2011 (2010: Nil), nor has any dividend been proposed since the end of the reporting period (2010: Nil).

## 17. EARNINGS (LOSS) PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company) | **306,180** | 31,397 |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment to share of profit of a subsidiary constituting discontinued operations based on dilution of its earnings per share | **(35)** | – |
| Earnings for the purpose of diluted earnings per share | **306,145** | 31,397 |

| | **2011** **'000** | 2010 *'000* |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **1,349,631** | 1,295,365 |

The effect of incremental shares from assumed exercise of share options have been excluded from calculation of the diluted earnings per share from continuing and discontinued operations for the years ended 31 December 2010 and 2011 because their assumed exercise would result in decrease in earnings per share from continuing and discontinued operations.

## 17. EARNINGS (LOSS) PER SHARE *(Continued)*

### From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based in the following data:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share from continuing operations (loss for the year from continuing operations attributable to the owners of the Company) | **(34,635)** | (53,412) |

| | **2011** | 2010 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **1,349,631** | 1,295,246 |

The effect of incremental shares from assumed exercise of share options have been excluded from calculation of the diluted loss per share from continuing operations for the years ended 31 December 2010 and 2011 because their assumed exercise would result in decrease in loss per share from continuing operations.

## 17. EARNINGS (LOSS) PER SHARE *(Continued)*

### From discontinued operations

The calculation of the basic and diluted earnings per share from discontinued operations attributable to owners of the Company is based on the following data:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share from discontinued operations (Profit for the year from discontinued operations attributable to owners of the Company) | **340,815** | 84,809 |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment to share of profit of a subsidiary constituting discontinued operations based on dilution of its earnings per share | **(35)** | – |
| Earnings for the purposes of diluted earnings per share from discontinued operations | **340,780** | 84,809 |

Basic and dilutive earnings per share for the discontinued operations are of HK25.25 cents and HK25.25 cents per share (2010: HK6.54 cents per share), based on the profit for the year from discontinued operations of HK$340,815,000 and HK$340,780,000, respectively (2010: HK$84,809,000) and the denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Building | Leasehold improvements | Plant and machinery | Equipment, furniture and fixtures | Computer equipment | Motor vehicles | Property under construction | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | | | |
| At 1 January 2010 | – | 33,028 | – | 5,630 | 53,948 | 1,911 | 91,460 | 185,977 |
| Exchange realignment | – | 1,098 | – | 172 | 1,462 | 16 | 2,962 | 5,710 |
| Additions | – | 29,307 | 70,116 | 4,363 | 5,334 | 1,222 | 97,932 | 208,274 |
| Disposals | – | (30,959) | – | (788) | (432) | (43) | – | (32,222) |
| Transfer | 192,354 | – | – | – | – | – | (192,354) | – |
| At 31 December 2010 | 192,354 | 32,474 | 70,116 | 9,377 | 60,312 | 3,106 | – | 367,739 |
| Exchange realignment | 9,499 | 1,480 | 3,463 | 250 | 2,208 | 79 | – | 16,979 |
| Additions | 13,926 | 2,262 | – | 3,812 | 8,271 | 3,458 | – | 31,729 |
| Disposals | – | – | – | (64) | (1,148) | (375) | – | (1,587) |
| Disposal of subsidiaries | (13,926) | (3,424) | – | (4,424) | (16,730) | (683) | – | (39,187) |
| At 31 December 2011 | 201,853 | 32,792 | 73,579 | 8,951 | 52,913 | 5,585 | – | 375,673 |
| DEPRECIATION AND AMORTISATION | | | | | | | | |
| At 1 January 2010 | – | 29,554 | – | 2,950 | 37,144 | 940 | – | 70,588 |
| Exchange realignment | 16 | 977 | 28 | 88 | 1,080 | 15 | – | 2,204 |
| Provided for the year | 632 | 1,700 | 1,153 | 1,433 | 7,949 | 433 | – | 13,300 |
| Eliminated on disposals | – | (29,549) | – | (764) | (597) | (21) | – | (30,931) |
| At 31 December 2010 | 648 | 2,682 | 1,181 | 3,707 | 45,576 | 1,367 | – | 55,161 |
| Exchange realignment | 150 | 110 | 272 | 143 | 1,887 | 25 | – | 2,587 |
| Provided for the year | 4,080 | 3,738 | 7,437 | 2,083 | 8,609 | 554 | – | 26,501 |
| Eliminated on disposals | – | – | – | (126) | (820) | (155) | – | (1,101) |
| Disposal of subsidiaries | – | (966) | – | (2,254) | (10,888) | (245) | – | (14,353) |
| At 31 December 2011 | 4,878 | 5,564 | 8,890 | 3,553 | 44,364 | 1,546 | – | 68,795 |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2011 | 196,975 | 27,228 | 64,689 | 5,398 | 8,549 | 4,039 | – | 306,878 |
| At 31 December 2010 | 191,706 | 29,792 | 68,935 | 5,670 | 14,736 | 1,739 | – | 312,578 |

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

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

| | |
|---|---|
| Building | Over the shorter of lease term of the land, or 50 years |
| Leasehold improvements | Over the shorter of lease term or 10 years |
| Plant and machinery | 10 years |
| Equipment, furniture and fixtures | 5 years |
| Computer equipment | 3 years |
| Motor vehicles | 5 years |

The building of the Group as at 31 December 2011 is situated on land in the PRC with a lease term of 50 years.

As at 31 December 2010 and 2011, all of the Group's building and plant and machinery have been pledged to secure banking facilities granted to the Group (see Note 35).

During the year ended 31 December 2011, the management of the Group performed an impairment assessment on the cash generating unit ("CGU") relating to the CG creation and production operating segment. The recoverable amount of this CGU has been determined based on value in use calculations. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 7.5%. Cash flows projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins were determined based on past performance and the management's expectation for the market development. Growth rate beyond the five-year period is extrapolated using a growth rate of 4%.

At 31 December 2011, no impairment is required as the recoverable amount exceeds the carrying amount of the CGU.

## 19. INVESTMENT PROPERTIES

| | **Properties interest under construction** *HK$'000* |
|---|---:|
| COST | |
| At 1 January 2010 | – |
| Exchange realignment | 1,988 |
| Acquired on acquisition of a subsidiary *(Note 39)* | 84,473 |
| Additions | 8,934 |
| At 31 December 2010 | 95,395 |
| Exchange realignment | 4,711 |
| Additions | 70,499 |
| At 31 December 2011 | 170,605 |

## 19. INVESTMENT PROPERTIES *(Continued)*

The investment properties represent the properties interest held under an operating lease on a property project under construction which arose from a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") entered into by 廣東環球數碼創意產業有限公司 (Guangdong GDC Cultural Park Limited*) (formerly known as 廣東時尚置業有限公司 Guangdong Shishang Zhiye Investment Co. Ltd.*) ("Guangdong Cultural Park") and 珠江電影製片有限公司 (Pearl River Film Production Company Limited*) ("Pearl River Film Production"), a limited liability company established in the PRC and a state-owned enterprise, to redevelop 珠影文化產業園 ("Pearl River Film Cultural Park").

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

The Pearl River Film Cultural Park is located at No. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC and the present land use right is owned by Pearl River Film Production. After the redevelopment, which is expected to be completed in the next 2 to 3 years, the Pearl River Film Cultural Park will have a commercial area, a cultural entertainment area and a film production and development area, which will be held for investment properties purpose.

The investment properties are stated at cost as the fair value of the properties under construction cannot be reliably measured.

* English name for identification only

## 20. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise medium-term leasehold land in the PRC and analysed for reporting purposes as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Current | **136** | 129 |
| Non-current | **6,029** | 5,875 |
| | **6,165** | 6,004 |

As at 31 December 2010 and 2011, all of the Group's prepaid lease payments have been pledged to secure banking facilities granted to the Group (see Note 35).

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 11.93% equity interest in GDC Tech | **84,393** | – |
| 5% equity interest in a private entity established in the PRC | **617** | 588 |
| | **85,010** | 588 |

These investments are measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimate is so variable that the Directors are of opinion that the fair value cannot be measured reliably.

## 22. INTEREST IN AN ASSOCIATE

| | **2011** | 2010 |
|---|---|---|
| | ***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 | **2,992** | 1,938 |
| Share of post-acquisition losses | **(1,736)** | (1,548) |
| | **23,062** | 22,196 |
| Dissolution of an associate | **(23,062)** | – |
| | **–** | 22,196 |
| Interest in an associate upon dissolution | **(23,062)** | – |
| Release of exchange reserve upon dissolution | **2,992** | – |
| Proceeds from dissolution of an associate | **22,242** | – |
| Gain on dissolution of an associate | **2,172** | – |

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

As at 31 December 2010, the Group had interest in the following associate:

| Name of entity | Form of business structure | Country of establishment and operation | Proportion of nominal value of registered capital held by the Group (Note) 2011 | 2010 | 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 | **N/A** | 49% | Inactive |

*Note:* The Group held 49% of registered capital of CFGDC and held 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 was required to pass resolutions in relation to the financial and operating policies of CFGDC. The Directors considered the Group did not exercise any control over CFGDC but the Group could exercise significant influence over CFGDC and therefore it was classified as an associate of the Group. The associate was dissolved on 28 December 2011.

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

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Total assets | **–** | 45,298 |
| Total liabilities | **–** | – |
| Net assets | **–** | 45,298 |
| The Group's share of net assets of an associate | **–** | 22,196 |
| Revenue | **–** | – |
| Loss for the year | **384** | 216 |
| The Group's share of loss of an associate for the year | **188** | 106 |

## 23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|
| Deposits *(Note a)* | **25,430** | 40,995 |
| Other receivables related to the VPF Arrangement *(Note b)* | **–** | 48,322 |
| Others | **10,155** | 7,535 |
| | **35,585** | 96,852 |
| Analysed for reporting purposes as: | | |
| Current | **10,894** | 54,828 |
| Non-current | **24,691** | 42,024 |
| | **35,585** | 96,852 |

*Notes:*

(a) The deposit was paid by Guangdong Cultural Park to Pearl River Film Production of RMB20,000,000 (equivalent to HK$25,430,000) for the development of the Pearl River Film Cultural Park in 2010. The deposit is refundable upon the completion of the entire project, which is expected to be completed in 2 to 3 years.

(b) The GDC DCN Group signed certain VPF Arrangement with distributors and exhibitors for 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 provided (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 were 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 at a fixed-rate of 10% per annum for the year ended 31 December 2010. During the year ended 31 December 2011, the Group installed 24 (2010: 39) units of digital cinema equipment under the VPF Arrangement.

The Directors expected that approximately HK$6,298,000 would be settled within one year after the year ended 31 December 2010 and this amount was therefore classified as a current asset in 2010.

On 6 September 2011, the Group disposed of 100% equity interest in GDC DCN Group and hence the Group did not have any receivables related to the VPF arrangement after the Disposal as set out in note 15.

## 24. INVENTORIES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Raw materials, net of allowance of Nil (2010: approximately HK$2,502,000) | – | 28,604 |
| Finished goods, net of allowance of approximately HK$1,295,000 (2010: approximately HK$8,152,000) | **8,922** | 30,266 |
| | **8,922** | 58,870 |

## 25. PRODUCTIONS WORK IN PROGRESS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Television series, net of allowance of approximately HK$1,442,000 (2010: Nil) | **468** | 9,223 |
| Movies, net of allowance of approximately HK$3,226,000 (2010: Nil) | **1,392** | 4,018 |
| | **1,860** | 13,241 |

During the year, the Group transferred approximately HK$10,124,000 (2010: Nil) of productions work in progress to inventories when the projects were completed. Included in the productions work in progress, there was allowance of approximately HK$4,668,000 (2010: Nil) as the management consider that the production costs incurred for the projects cannot be recoverable in the foreseeable future.

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

The following are details of contracts from CG production in progress which is expected to be realised within one year from the end of the reporting period:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **43,042** | 662 |
| Less: progress billings | **(39,567)** | (827) |
| | **3,475** | (165) |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **4,898** | – |
| Amounts due to customers for contract work | **(1,423)** | (165) |
| | **3,475** | (165) |

## 27. TRADE RECEIVABLES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade receivables | **8,735** | 101,490 |
| Less: allowance for doubtful debts | **–** | – |
| | **8,735** | 101,490 |

The Group allows different credit periods to its customers, ranging from 30 days to 120 days, depending on the type of products sold or services provided.

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

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Within three months | **8,580** | 62,270 |
| Three to six months | **99** | 29,382 |
| Over six months | **56** | 9,838 |
| | **8,735** | 101,490 |

## 27. TRADE RECEIVABLES *(Continued)*

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$56,000 (2010: approximately HK$9,838,000) which are past due at the end of the reporting period for which the Group does not provide for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these receivables.

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

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| Six to nine months | **32** | 4,285 |
| Nine to twelve months | **–** | 1,637 |
| Over one year | **24** | 3,916 |
| Total | **56** | 9,838 |

### Movement in the allowance for doubtful debts

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| At 1 January | **–** | 159 |
| Amounts written off during the year | **–** | (159) |
| At 31 December | **–** | – |

Included in the allowance for doubtful debts as at 31 December 2010 were individually impaired trade receivables with an aggregate balance of approximately HK$159,000, 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.

## 28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2011 and 2010 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange.

## 29. STRUCTURED DEPOSITS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Financial products | **988** | 23,522 |
| Principal – protected financial products | **–** | 17,647 |
| | **988** | 41,169 |

The structured deposits as at 31 December 2011 and 2010 are issued by banks in the PRC, which interest carried at average interest rate of 5.2% (2010: 1.93%) per annum, depending on the market prices of financial instruments, including listed shares and debentures payable daily. The Group has the right to redeem the structured deposits at any time with one day notice. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The Directors consider the fair values of the structured deposits, which are based on the prices the counterparty banks would pay to redeem at 31 December 2011 and 31 December 2010, approximate to their carrying values at 31 December 2011 and 2010.

For the structured deposits as at 31 December 2011, it is redeemed in January 2012 (2010: January and February 2011). The change in fair value up to the date of redemption is not significant.

## 30. BANK BALANCES/PLEDGED BANK DEPOSITS

As at 31 December 2011, bank balances (including fixed deposits) carries interest at market rates which range from 0.01% to 6% per annum (2010: 0.01% to 1.35% per annum).

As at 31 December 2010, the pledged bank deposits represented deposits pledged to a bank to secure short-term bank borrowings (classified as current liabilities). The pledged bank deposits was released upon the settlement of the bank borrowings in 2011 and the disposal of subsidiaries as set out in Note 15. As at 31 December 2010, the deposits carried interest rate from 1.98% to 2.02% per annum.

## 31. ADVANCES FROM CUSTOMERS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Advances from students | **5,081** | 6,275 |
| Sales deposits and advances from customers | **1,628** | 42,767 |
| | **6,709** | 49,042 |

## 32. 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:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within three months | **666** | 45,027 |
| Three to twelve months | **13** | 536 |
| Over one year | **597** | – |
| | **1,276** | 45,563 |

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.

## 33. OTHER PAYABLES AND ACCRUALS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Construction payable | **27,554** | 47,046 |
| Accruals | **9,690** | 45,328 |
| Rental deposits from tenants | **4,487** | – |
| Other tax payables | **170** | 12,101 |
| Others | **23,079** | 18,300 |
| | **64,980** | 122,775 |

## 34. AMOUNT DUE TO AN ASSOCIATE

The amount was unsecured, non-interest bearing and repayable on demand. The balance has been settled in during the year ended 31 December 2011.

## 35. SECURED BANK BORROWINGS

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured variable-rate bank borrowing | **167,901** | 162,352 |
| Secured fixed-rate bank borrowings | **–** | 42,990 |
| | **167,901** | 205,342 |
| Carrying amount repayable: | | |
| Within one year | **24,691** | 45,342 |
| More than one year, but not exceeding two years | **29,630** | 23,529 |
| More than two years, but not exceeding three years | **34,568** | 28,235 |
| More than three years, but not exceeding four years | **44,444** | 32,941 |
| More than four years, but not exceeding five years | **34,568** | 42,353 |
| Over five years | **–** | 32,942 |
| | **167,901** | 205,342 |
| Less: Amounts due within one year shown under current liabilities | **(24,691)** | (45,342) |
| Amounts due after one year | **143,210** | 160,000 |

As at 31 December 2010 and 2011, the variable-rate bank borrowing for financing the construction cost of the building in the PRC is denominated in Renminbi, secured by the Group's pledge of building and plant and machinery (see Note 18) and prepaid lease payments (see Note 20), and carries interest at the People's Bank of China Renminbi Lending Rate per annum. The interest rates (which are also equal to contracted interest rate) in the Group's bank borrowing ranged from 6.14% to 7.05% (2010: 5.94% to 5.96%) per annum. Interest is repricing every month.

As at 31 December 2010, the fixed-rate bank borrowings for general working capital were secured by pledge of bank deposits, carried interest at fixed interest rates from 1.98% to 2.02% per annum and were repayable within twelve months from the end of the reporting period. There is no fixed rate bank borrowing as at 31 December 2011.

As at 31 December 2010, the Group had unutilised banking facility of RMB35,000,000, (equivalent to HK$41,176,000), which was secured by pledge of building and plant and machinery (see Note 18) and prepaid lease payments (see Note 20). The term of the banking facility had expired on 15 January 2011. As at 31 December 2011, the Group did not have unutilised banking facility.

## 36. SHARE CAPITAL

| | Number of shares | Share capital HK$ |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 1 January 2010, 31 December 2010 and 2011 | 2,400,000,000 | 24,000,000 |
| Issued and fully paid | | |
| At 1 January 2010 | 1,295,245,540 | 12,952,455 |
| Exercise of share options | 10,000 | 100 |
| At 31 December 2010 | 1,295,255,540 | 12,952,555 |
| Shares issued | 223,000,000 | 2,230,000 |
| At 31 December 2011 | 1,518,255,540 | 15,182,555 |

Pursuant to a subscription agreement entered on 12 July 2011, the Company allotted and issued 223,000,000 new shares of HK$0.01 each at the subscription price of HK$0.35 per share on 4 October 2011 with the proceeds of approximately HK$78,050,000 to certain Directors. These shares rank pari passu in all respects with other shares in issue.

## 37. NON-CONTROLLING INTERESTS

| | Share of share options reserve of a subsidiary<br>*HK$'000* | Share of other net assets of subsidiaries<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| At 1 January 2010 | 5,775 | 74,657 | 80,432 |
| Share of profit for the year | – | 58,329 | 58,329 |
| Share of exchange differences arising on translation of foreign operations | – | 1,639 | 1,639 |
| Non-controlling interests arising on acquisition of a subsidiary *(Note 39)* | – | 27,927 | 27,927 |
| Exercise of share options of a subsidiary | (2,750) | 5,124 | 2,374 |
| Recognition of equity-settled share-based payments | 5,911 | – | 5,911 |
| At 31 December 2010 | 8,936 | 167,676 | 176,612 |
| Share of profit for the year | – | 43,811 | 43,811 |
| Share of exchange differences arising on translation of foreign operations | – | 2,630 | 2,630 |
| Exercise of share options of a subsidiary | (7,855) | 28,475 | 20,620 |
| Lapse of share options granted by a subsidiary | (41) | – | (41) |
| Payment of dividends | – | (138,583) | (138,583) |
| Release upon disposal of subsidiaries | (1,040) | (78,654) | (79,694) |
| At 31 December 2011 | – | 25,355 | 25,355 |

## 38. SHARE OPTION SCHEMES

### Share option scheme of the Company

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 immediately 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.

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

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

During the year ended 31 December 2010, 58,250,000 options (2011: Nil) were granted under the Scheme to the Directors and employees. As at 31 December 2011, 83,020,000 options (2010: 83,820,000 options) were exercisable.

The following table sets out the movements in the Company's share options during the year ended 31 December 2011:

| | | | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2011 | Granted during the year | Transferred to other category during the year | Transferred from other category during the year | Exercised during the year | Lapsed during the year | Balance as at 31.12.2011 |
| Directors | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 10,770,000 | – | – | – | – | – | 10,770,000 |
| | 14.12.2010 | 14.12.2010 – 03.8.2013 | HK$0.87 | 32,350,000 | – | – | – | – | – | 32,350,000 |
| Employees | 22.3.2007 | 22.03.2007 – 21.03.2011 | HK$1.07 | – | – | – | – | – | – | – |
| | 4.4.2007 | 04.04.2007 – 03.04.2011 | HK$1.52 | – | – | – | – | – | – | – |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 9,900,000 | – | – | – | – | – | 9,900,000 |
| | 14.12.2010 | 14.12.2010 – 03.08.2013 | HK$0.87 | 25,900,000 | – | (1,200,000) | – | – | – | 24,700,000 |
| Other participants | 22.3.2007 | 22.03.2007 – 21.03.2011 | HK$1.07 | – | – | – | – | – | – | – |
| | 4.4.2007 | 04.04.2007 – 03.04.2011 | HK$1.52 | – | – | – | – | – | – | – |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 4,900,000 | – | – | – | – | – | 4,900,000 |
| | 14.12.2010 | 14.12.2010 – 03.08.2013 | HK$0.87 | – | – | – | 1,200,000 | – | (800,000) | 400,000 |
| Totals | | | | 83,820,000 | – | (1,200,000) | 1,200,000 | – | (800,000) | 83,020,000 |

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

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

The following table sets out the movements in the Company's share options during the year ended 31 December 2010:

| | | | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2010 | Granted during the year | Transferred to other category during the year | Transferred from other category during the year | Exercised during the year | Lapsed during the year | Balance as at 31.12.2010 |
| Directors | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 15,680,000 | – | (4,900,000) | – | (10,000) | – | 10,770,000 |
| | 14.12.2010 | 14.12.2010 – 13.8.2013 | HK$0.87 | – | 32,350,000 | – | – | – | – | 32,350,000 |
| Employees | 22.3.2007 | 22.3.2007 – 21.3.2011 | HK$1.07 | 2,300,000 | – | (100,000) | – | – | (2,200,000) | – |
| | 4.4.2007 | 4.4.2007 – 3.4.2011 | HK$1.52 | 2,262,000 | – | (200,000) | – | – | (2,062,000) | – |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 9,900,000 | – | – | – | – | – | 9,900,000 |
| | 14.12.2010 | 14.12.2010 – 13.8.2013 | HK$0.87 | – | 25,900,000 | – | – | – | – | 25,900,000 |
| Other participants | 22.3.2007 | 22.3.2007 – 21.3.2011 | HK$1.07 | – | – | – | 100,000 | – | (100,000) | – |
| | 4.4.2007 | 4.4.2007 – 3.4.2011 | HK$1.52 | 1,781,000 | – | – | 200,000 | – | (1,981,000) | – |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | – | – | – | 4,900,000 | – | – | 4,900,000 |
| Totals | | | | 31,923,000 | 58,250,000 | (5,200,000) | 5,200,000 | (10,000) | (6,343,000) | 83,820,000 |

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

### Share option scheme of GDC Tech prior to the Disposal

The share option scheme of GDC Tech ("GDC Tech 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 Tech, its subsidiaries and its holding companies (including intermediate and ultimate holding companies). The GDC Tech Share Option Scheme remains in force for a period of 10 years to 18 September 2016.

During the year ended 31 December 2010, 12,000,000 options (2011: Nil) were granted under the GDC Tech Share Option Scheme to the Directors and employees.

The following table sets out the movements in the share options of GDC Tech during the period ended 6 September 2011:

| | | | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2011 | Granted during the period | Transferred to other category during the period | Transferred from other category during the period | Exercised during the period | Cancelled/ lapsed during the period | Balance as at 6.9.2011 |
| Directors | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 1,980,000 | – | – | – | (1,980,000) | – | – |
| | 14.12.2010 | 14.12.2010 – 13.12.2015 | HK$2.00 | 6,000,000 | – | – | – | (6,000,000) | – | – |
| Employees | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 1,650,000 | – | – | – | (1,650,000) | – | – |
| | 14.12.2010 | 14.12.2010 – 13.12.2015 | HK$2.00 | 6,000,000 | – | – | – | (3,466,000) | (2,095,000) | 439,000 |
| Other participant | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | – | – | – | – | – | – | – |
| Totals | | | | 15,630,000 | – | – | – | (13,096,000) | (2,095,000) | 439,000 |

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

### Share option scheme of GDC Tech prior to the Disposal *(Continued)*

The following table sets out the movements in the share options of GDC Tech during the year ended 31 December 2010:

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2010 | Granted during the year | Transferred to other category during the year | Transferred from other category during the year | Exercised during the year | Balance as at 31.12.2010 |
| Directors | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 5,280,000 | – | (1,650,000) | – | (1,650,000) | 1,980,000 |
| | 14.12.2010 | 14.12.2010 – 13.12.2015 | HK$2.00 | – | 6,000,000 | – | – | – | 6,000,000 |
| Employees | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 1,650,000 | – | – | – | – | 1,650,000 |
| | 14.12.2010 | 14.12.2010 – 13.12.2015 | HK$2.00 | – | 6,000,000 | – | – | – | 6,000,000 |
| Other participant | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | – | – | – | 1,650,000 | (1,650,000) | – |
| Totals | | | | 6,930,000 | 12,000,000 | (1,650,000) | 1,650,000 | (3,300,000) | 15,630,000 |

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

### Fair value of shares options granted by the Company and GDC Tech in 2010

The estimated fair values of the options granted under the Scheme and the GDC Tech Share Option Scheme granted to the Directors on 14 December 2010 were HK$0.3598 and HK$0.5587, respectively. The estimated fair values of the options granted under the Scheme and the GDC Tech Share Option Scheme to employees on 14 December 2010 were HK$0.2672 and HK$0.4265, respectively.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

| | **The Scheme** | **The GDC Tech Share Option Scheme** |
|---|---|---|
| Weighted average share price/share price | HK$0.87 | HK$1.89 |
| Exercise price | HK$0.87 | HK$2.00 |
| Expected volatility | 79.5% | 41.3% |
| Expected life | 2.7 years | 5 years |
| Risk-free rate | 1.03% | 2.04% |
| Expected dividend yield | NIL | NIL |
| Likelihood of early exercise of directors | 2.8 times* | 2.8 times* |
| Likelihood of early exercise of employees | 1.5 times* | 1.5 times* |
| Forfeiture rates for directors | 12.37% | 23.46% |
| Forfeiture rates for employees | 0% | 30.59% |

* Assumed Directors and employees would exercise the options once the share price is 2.8 and 1.5 times the exercise price of the Company and GDC Tech, respectively.

Expected volatility of the Company was determined by using the average annualised standard derivations of the continuously compounded rate of return on the share price of the Company on the grant date. The expected life used in the model were adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The share price of GDC Tech was determined by discounted cash flow model based on management's best estimate. Expected volatility of GDC Tech was determined by the average annualised standard derivations of the continuously compounded rate of return on the share price of other companies in the similar industry on the grant date. The expected life used in the model were adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expense of approximately HK$24,471,000 for the year ended 31 December 2010 (2011: Nil) in relation to share options granted by the Company and GDC Tech.

The Binomial model were used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options were based on the Directors' best estimates. The value of an option varied with different variables of certain subjective assumptions.

## 39. ACQUISITION OF A SUBSIDIARY

On 30 March 2010, the Group acquired 68% of the registered capital of Guangdong Cultural Park for consideration of RMB56,060,000 (equivalent to approximately HK$63,705,000). The acquisition was completed on 20 April 2010. Details of the acquisition were set out in the announcement of the Company dated 30 March 2010.

Guangdong Cultural Park is a limited liability company established in the PRC on 23 March 2007. Guangdong Cultural Park entered into the Framework Agreement with Pearl River Film Production to redevelop the Pearl River Film Cultural Park.

The acquisition of the subsidiary was accounted for as acquisition of assets and assumption of liabilities.

The net assets of the subsidiary acquired as of the completion date of the acquisition were as follows:

| | *HK$'000* |
|---|---|
| Net assets acquired: | |
| Investment properties | 84,473 |
| Other receivables, prepayments and deposits | 12,305 |
| Bank balances and cash | 556 |
| Other payables and accruals | (5,702) |
| | 91,632 |
| Non-controlling interests | (27,927) |
| Total consideration satisfied by cash | 63,705 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | 63,705 |
| Bank balances and cash acquired | (556) |
| | 63,149 |

## 40. LITIGATION

The Company received an original complaint in April 2010, a first amended complaint in July 2010 and a second amended complaint in March 2011 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its subsidiaries namely GDC Technology, GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses is not a core business of the Group.

The Group filed its answer and counterclaims in November 2010 and amended answers and counterclaims in January 2011 and April 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D did not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011 and May 2011, X6D filed its answers to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

In May 2011, X6D filed with the United States Patent & Trademark Office re-issue request for all three of its design patents. In June 2011, the Defendants filed a motion to stay the litigation on the ground that the patent claims were in flux due to the re-issue applications, and that the same facts applied to the validity of all of X6D's intellectual property and trade secrets claims, and all claims involved common products. X6D filed its opposition to the motion in July 2011. The Court issued its order granting the stay as to the patent claims but denying the motion as to all non-patent claims in August 2011.

During the mediation on 9 March 2012, X6D and the Group reached an agreement to settle the dispute out of the Court. Although the settlement agreement was not finalised prior to the date of the consolidated financial statements are authorised for issuance, once the agreement is signed, all claims pending between X6D and the Group will be resolved.

Based on the terms of the settlement agreement, no provision for any potential liability is required to be made by the Group in the consolidated financial statements.

## 41. 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:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within one year | **3,122** | 7,422 |
| In the second to fifth year inclusive | **6,130** | 12,565 |
| | **9,252** | 19,987 |

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 six years with fixed rentals. The operating lease commitment as at 31 December 2010 included HK$10,193,000 which was related to the discontinued operations as set out in Note 15.

### The Group as lessor

The Group leased part of its building under operating lease arrangements. Leases are negotiated for terms ranging from 2 to 15 years and rentals are fixed.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within one year | **27,393** | – |
| In the second to fifth year inclusive | **54,699** | – |
| After five years | **8,636** | – |
| | **90,728** | – |

## 42. CAPITAL COMMITMENTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment properties | **104,093** | 64,182 |

## 43. 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$18,000 (2010: HK$212,000) payable to the Retirement Schemes as at 31 December 2011 are included in other payables and accruals. There was no forfeited contribution in both years.

## 44. RELATED PARTY TRANSACTIONS

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

| | *Notes* | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|---|
| (i) Rental expense paid to Shougang Grand in respect of office premises | *(a)* | **–** | 405 |

*Note:*

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

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

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Short-term benefits | **18,073** | 13,225 |
| Post-employment benefits | **105** | 119 |
| Share-based payments | **–** | 15,405 |
| | **18,178** | 28,749 |

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 with related parties as at the end of the reporting period are set out in the consolidated statement of financial position and in Note 34.

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2011 and 2010 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 | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | directly | | indirectly | | |
| | | | | 2011 % | 2010 % | 2011 % | 2010 % | |
| 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 | Animation investment |
| 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 | – | – | N/A* | 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 | – | – | N/A* | 100 | Deployment of digital cinema network in Asia |
| 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 | 29,757,686 ordinary shares of HK$0.10 each (as at 6 September 2011) | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis |

## 45. 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 2011 % | directly 2010 % | indirectly 2011 % | indirectly 2010 % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| GDC Technology (Hong Kong) Limited | Incorporated | Hong Kong | 2 ordinary shares of HK$1 each | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions |
| GDC Technology of America, LLC | Incorporated | United States | US$1,000 | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions |
| GDC Technology Pte. Ltd. | Incorporated | Singapore | 900,000 ordinary shares of S$1 each | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis |
| GDC Technology (USA), LLC | Incorporated | United States | US$1,000 | – | – | N/A* | 61.0 | 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 | Established | PRC | RMB200,000 | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions |
| 重慶環球數碼動畫有限公司 | Established | PRC | RMB10,000,000 | – | – | 100 | 100 | Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC |

## 45. 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 2011 % | directly 2010 % | indirectly 2011 % | indirectly 2010 % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| 廣東環球數碼創意產業有限公司（前名廣東時尚置業有限公司） | Established | PRC | RMB10,000,000 | – | – | 68 | 68 | Investment in cultural park |
| 廣州環球數碼媒體科技有限公司 | Established | PRC | RMB200,000 | – | – | 100 | 100 | Provision of CG and animation training in the PRC |
| 環球數碼媒體科技（上海）有限公司 Institute of Digital Media Technology (Shanghai) Limited | Established | 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 | Established | PRC | US$35,353,896 | – | – | 100 | 100 | Provision of CG and animation training, development of multimedia software and hardware, provision of related technical consultancy services and property holding in the PRC |
| 深圳市環球數碼影視文化有限公司 | Established | PRC | RMB3,000,000 | – | – | 100 | 100 | Animation Investment |
| 深圳市環球數碼科技有限公司 | Established | PRC | RMB10,000,000 | – | – | N/A* | 61.0 | Provision of computing solutions for digital content distribution and exhibitions |
| 無錫環球數碼動畫有限公司 | Established | PRC | RMB500,000 | – | – | 100 | 100 | Provision of CG and animation training in the PRC |

## 45. 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 | | |
| | | | | 2011 % | 2010 % | 2011 % | 2010 % | |
| 重慶北部新區環球數碼動畫職業培訓學校 | School | PRC | RMB100,000 | – | – | 100 | 100 | Provision of CG and animation training in the PRC |
| 上海環球數碼職業技能培訓學校 | School | PRC | RMB200,000 | – | – | 100 | 100 | Provision of CG and animation training in the PRC |
| 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 |
| 廣州高尚商業經營管理有限公司 | Established | PRC | RMB1,000,000 | – | – | 68 | – | Inactive |
| 北京風雲環球數碼傳媒技術有限公司 | Established | PRC | RMB15,000,000 | – | – | 100 | – | Inactive |
| 廣東環球數碼動畫製作有限公司 | Established | PRC | RMB800,000 | – | – | 80 | – | Provision of graphic animation creation |

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

* Being subsidiaries of GDC Tech and GDC DCN and no longer the subsidiaries of the Group upon the Disposal as set out in Note 15.

## 46. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Non-current assets | | |
| Amount due from subsidiaries | – | 39,357 |
| Current assets | | |
| Prepayment, deposits and other receivables | 388 | 365 |
| Bank balances and cash | 11,414 | 64 |
| | 11,802 | 429 |
| Current liabilities | | |
| Other payables and accruals | 1,565 | 1,376 |
| Net current assets (liabilities) | 10,237 | (947) |
| Net assets | 10,237 | 38,410 |
| Capital and reserves | | |
| Share capital | 15,183 | 12,953 |
| Reserves | (4,946) | 25,457 |
| Total equity | 10,237 | 38,410 |

## CONSOLIDATED RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | (Restated) | (Restated) | (Restated) | (Restated) | |
| **Continuing operations** | | | | | |
| Revenue | 62,263 | 59,986 | 76,043 | 35,920 | **94,677** |
| **Continuing operations** | | | | | |
| Loss from operations | (17,126) | (8,337) | (7,869) | (53,056) | **(26,604)** |
| Finance costs | (3,995) | (2,425) | (809) | (1,503) | **(10,363)** |
| Share of loss of an associate | (298) | (857) | (287) | (106) | **(188)** |
| Loss before tax | (21,419) | (11,619) | (8,965) | (54,665) | **(37,155)** |
| Income tax expense | (665) | – | (195) | (168) | **–** |
| Loss for the year from continuing operations | (22,084) | (11,619) | (9,160) | (54,833) | **(37,155)** |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year from discontinued operations | 43,553 | (64,528) | 40,937 | 144,559 | **387,146** |
| Profit (loss) for the year | 21,469 | (76,147) | 31,777 | 89,726 | **349,991** |

## CONSOLIDATED ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 528,477 | 499,058 | 563,470 | 1,032,845 | **1,102,018** |
| Total liabilities | 93,286 | 121,106 | 153,565 | 462,455 | **243,565** |
| Net assets | 435,191 | 377,952 | 409,905 | 570,390 | **858,453** |

# PARTICULARS OF PROPERTIES

Details of the Group's properties at the end of the reporting period are as follows:

| Location | Existing use | Lease term | Attributable interest of the Group |
|---|---|---|---|
| **Investment properties** | | | |
| No. 352 and 354, Xin Gang Zhong Road<br>Guangzhou<br>the People's Republic of China | Commercial | Medium | 68% |
| **Building** | | | |
| No. 9, Gaoxin Central Avenue 3rd<br>Nanshan District, Shenzhen<br>the People's Republic of China | Commercial | Medium | 100% |