



**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)



**INTERIM REPORT**  
**2012**



\* 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

CORPORATE INFORMATION . . . . .	3
INTERIM RESULTS	
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME . . . . .	5
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION . . . . .	7
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY . . . . .	9
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS . . . . .	11
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS . . . . .	12
REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS . . . . .	28
MANAGEMENT DISCUSSION AND ANALYSIS . . . . .	30
INTERIM DIVIDEND . . . . .	35
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES . . . . .	36
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES . . . . .	36
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES . . . . .	37
SUBSTANTIAL SHAREHOLDERS . . . . .	37
SHARE OPTION SCHEME . . . . .	38
DIRECTORS' INTERESTS IN COMPETING BUSINESSES . . . . .	39
COMPLIANCE WITH CORPORATE GOVERNANCE CODE . . . . .	39
COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS . . . . .	39
CHANGE IN DIRECTORS' INFORMATION . . . . .	40
AUDIT COMMITTEE . . . . .	40
APPRECIATION . . . . .	40

## 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. Chan Chung Chun

### 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. Chan Chung Chun

### Nomination Committee

Mr. Li Shaofeng (*Chairman*)  
Mr. Leung Shun Sang, Tony (*Vice Chairman*)  
Mr. Kwong Che Keung, Gordon  
Prof. Japhet Sebastian Law  
Mr. Chan Chung Chun

### Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)  
Mr. Li Shaofeng (*Vice Chairman*)  
Mr. Leung Shun Sang, Tony  
Mr. Kwong Che Keung, Gordon  
Mr. Chan Chung Chun

### Compliance Officer

Mr. Chen Zheng

### Company Secretary

Mr. Chiu Ming Kin

## CORPORATE INFORMATION *(Continued)*

<b>Authorised Representatives</b>	Mr. Chen Zheng Mr. Chiu Ming Kin
<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Bermuda Principal Share Registrar and Transfer Office</b>	HSBC Securities Services (Bermuda) Limited 6 Front Street Hamilton HM 11 Bermuda
<b>Hong Kong Branch Share Registrar and Transfer Office</b>	Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered Office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head Office and Principal Place of Business in Hong Kong</b>	Unit 1-7, 20/F., Kodak House II 39 Healthy Street East North Point Hong Kong
<b>Stock Code</b>	8271
<b>Website</b>	<a href="http://www.gdc-world.com">www.gdc-world.com</a>

## INTERIM RESULTS

The board of Directors of the Company (the “Board”) hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2012 with comparative figures for the corresponding periods in the year 2011.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended 30 June 2012

	NOTES	Three months ended 30 June		Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>					
Revenue	4	32,983	20,906	52,412	29,669
Cost of sales		(22,015)	(13,598)	(35,972)	(23,598)
Gross profit		10,968	7,308	16,440	6,071
Other income	5	14,731	1,697	19,496	2,665
Distribution costs and selling expenses		(5,677)	(1,563)	(7,181)	(3,797)
Administrative expenses		(15,090)	(13,592)	(30,993)	(26,103)
Finance costs	6	(2,913)	(2,608)	(5,906)	(5,100)
Other gains and losses	7	345	(22)	(4,816)	(548)
Share of loss of an associate		–	(46)	–	(81)
Profit (loss) before tax		2,364	(8,826)	(12,960)	(26,893)
Income tax expense	8	–	–	–	(36)
Profit (loss) for the period from continuing operations	9	2,364	(8,826)	(12,960)	(26,929)
<b>Discontinued operations</b>					
Profit for the period from discontinued operations	10	–	49,069	–	82,632
Profit (loss) for the period		2,364	40,243	(12,960)	55,703
Other comprehensive (expense) income:					
Exchange differences arising on translation		(8,278)	7,278	(8,278)	11,000
Total comprehensive (expense) income for the period		(5,914)	47,521	(21,238)	66,703

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the periods ended 30 June 2012

NOTE	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Profit (loss) for the period attributable to:				
Owners of the Company				
– Profit (loss) for the period from continuing operations	3,976	(8,274)	(10,294)	(25,963)
– Profit for the period from discontinued operations	–	27,262	–	48,411
	<u>3,976</u>	<u>18,988</u>	<u>(10,294)</u>	<u>22,448</u>
Non-controlling interests				
– Loss for the period from continuing operations	(1,612)	(552)	(2,666)	(966)
– Profit for the period from discontinued operations	–	21,807	–	34,221
	<u>(1,612)</u>	<u>21,255</u>	<u>(2,666)</u>	<u>33,255</u>
	<u>2,364</u>	<u>40,243</u>	<u>(12,960)</u>	<u>55,703</u>
Total comprehensive (expense) income for the period attributable to:				
Owners of the Company	(3,967)	24,830	(18,237)	31,178
Non-controlling interests	(1,947)	22,691	(3,001)	35,525
	<u>(5,914)</u>	<u>47,521</u>	<u>(21,238)</u>	<u>66,703</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share				
<b>From continuing and discontinued operations</b>				
Basic	<u>0.26</u>	<u>1.47</u>	<u>(0.68)</u>	<u>1.73</u>
Diluted	<u>0.26</u>	<u>1.43</u>	<u>(0.68)</u>	<u>1.67</u>
<b>From continuing operations</b>				
Basic and diluted	<u>0.26</u>	<u>(0.64)</u>	<u>(0.68)</u>	<u>(2.00)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	13	293,093	306,878
Investment properties	14	226,934	170,605
Prepaid lease payments		5,889	6,029
Available-for-sale investments	15	85,003	85,010
Deposits	16	24,390	24,691
		<u>635,309</u>	<u>593,213</u>
<b>Current assets</b>			
Programmes	17	6,402	8,922
Productions work in progress		739	1,860
Amounts due from customers for contract work		3,455	4,898
Trade receivables	18	12,975	8,735
Other receivables, prepayments and deposits	16	7,504	10,894
Prepaid lease payments		134	136
Held-for-trading investments		30,717	27,396
Structured deposits	19	–	988
Bank balances and cash		366,520	444,976
		<u>428,446</u>	<u>508,805</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2012

	NOTES	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
<b>Current liabilities</b>			
Advances from customers		7,967	6,709
Amounts due to customers for contract work		3,673	1,423
Trade payables	20	2,484	1,276
Other payables and accruals		57,484	64,980
Tax liabilities		1,274	1,276
Secured bank borrowing – due within one year	21	26,829	24,691
		<u>99,711</u>	<u>100,355</u>
<b>Net current assets</b>		<u>328,735</u>	<u>408,450</u>
<b>Total assets less current liabilities</b>		<u>964,044</u>	<u>1,001,663</u>
<b>Capital and reserves</b>			
Share capital	22	15,183	15,183
Reserves		799,678	817,915
		<u>814,861</u>	<u>833,098</u>
Equity attributable to owners of the Company		814,861	833,098
Non-controlling interests		22,354	25,355
		<u>837,215</u>	<u>858,453</u>
<b>Total equity</b>		<u>837,215</u>	<u>858,453</u>
<b>Non-current liability</b>			
Secured bank borrowing – due after one year	21	126,829	143,210
		<u>126,829</u>	<u>143,210</u>
		<u>964,044</u>	<u>1,001,663</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2012

	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)	(Note b)	(Note c)			(Note d)				
At 1 January 2012 (audited)	15,183	75,856	445	245,881	680	40,890	44,568	-	409,595	833,098	25,355	858,453
Loss for the period	-	-	-	-	-	-	-	-	(10,294)	(10,294)	(2,666)	(12,960)
Other comprehensive expense	-	-	-	-	-	-	(7,943)	-	-	(7,943)	(335)	(8,278)
Total comprehensive expense for the period	-	-	-	-	-	-	(7,943)	-	(10,294)	(18,237)	(3,001)	(21,238)
Sub-total	15,183	75,856	445	245,881	680	40,890	36,625	-	399,301	814,861	22,354	837,215
Lapse of share options granted	-	-	-	-	-	(1,257)	-	-	1,257	-	-	-
At 30 June 2012 (unaudited)	15,183	75,856	445	245,881	680	39,633	36,625	-	400,558	814,861	22,354	837,215
At 1 January 2011 (audited)	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 period	-	-	-	-	-	-	-	-	22,448	22,448	33,255	55,703
Other comprehensive income	-	-	-	-	-	-	8,730	-	-	8,730	2,270	11,000
Total comprehensive income for the period	-	-	-	-	-	-	8,730	-	22,448	31,178	35,525	66,703
Sub-total	12,953	36	445	245,881	6,362	41,104	40,389	(42,140)	119,926	424,956	212,137	637,093
Lapse of share options granted	-	-	-	-	-	(133)	-	-	133	-	-	-
Lapse of share options granted by a subsidiary	-	-	-	-	-	-	-	-	41	41	(41)	-
At 30 June 2011 (unaudited)	12,953	36	445	245,881	6,362	40,971	40,389	(42,140)	120,100	424,997	212,096	637,093

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

*For the period ended 30 June 2012*

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 condensed 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 as at 30 June 2011 represented (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 six months ended 30 June 2010 of approximately HK\$4,226,000. This special reserve was released to profit and loss upon the disposal of the subsidiaries in the second half year of 2011.*

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2012

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Operating activities</b>		
(Loss) profit before tax		
– Continuing operations	<b>(12,960)</b>	(26,893)
– Discontinued operations	–	98,578
Decrease (increase) in programmes	<b>2,520</b>	(11,320)
Increase in trade receivables	<b>(4,240)</b>	(19,758)
Decrease (increase) in other receivables, prepayments and deposits	<b>3,692</b>	(2,792)
Increase (decrease) in trade payables	<b>1,207</b>	(8,799)
Other operating cash flows	<b>6,008</b>	4,983
Net cash (used in) from operating activities	<b>(3,773)</b>	33,999
<b>Investing activities</b>		
Proceeds from redemption of structured deposits	<b>976</b>	42,161
Withdrawal of pledged bank deposits	–	47,357
Additions in investment properties	<b>(59,131)</b>	(28,813)
Pledge of bank deposits	–	(27,057)
Purchase of property, plant and equipment	<b>(11,784)</b>	(23,809)
Dividend received from available-for-sale investments	<b>10,834</b>	–
Other investing cash flows	<b>6,188</b>	3,004
Net cash (used in) from investing activities	<b>(52,917)</b>	12,843
<b>Financing activities</b>		
Repayment of bank borrowings	<b>(12,346)</b>	(44,025)
New bank borrowings raised	–	25,007
Other financing cash flows	<b>(5,906)</b>	(5,280)
Net cash used in financing activities	<b>(18,252)</b>	(24,298)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(74,942)</b>	22,544
<b>Cash and cash equivalents at beginning of the period</b>	<b>444,976</b>	235,653
Effect of foreign exchange rate changes	<b>(3,514)</b>	4,410
<b>Cash and cash equivalents at end of the period, comprising bank balances and cash</b>	<b>366,520</b>	262,607

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the periods ended 30 June 2012*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the periods ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

The comparative figures presented in the condensed consolidated statement of comprehensive income have been restated in order to present operations of GDC Technology Limited ("GDC Tech") and its subsidiaries ("GDC Tech Group") and GDC Digital Cinema Network Limited ("GDC DCN") and its subsidiaries ("GDC DCN Group") as discontinued operations. Details are set out in note 10 to the condensed consolidated financial statements.

In the current period, the Group has applied, for the first time, amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which are effective for the financial year beginning on 1 January 2012. The application of these amendments to HKFRSs in the current interim period had no material effect on the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied the following amendments to HKFRSs that have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRS, 2009-2011 Cycle <sup>1</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

The Directors anticipate that the application of these amendments to HKFRSs, will have no material impact on the condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 3. SEGMENT INFORMATION

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

- Computer graphic ("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. The segment information reported below does not include any amounts for these discontinued operations, which are described in more details in note 10.

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

Six months ended 30 June 2012 (unaudited)

#### Continuing operations

	CG creation and production HK\$'000	CG training courses HK\$'000	Cultural park HK\$'000	Consolidated HK\$'000
Revenue	<u>44,145</u>	<u>7,924</u>	<u>343</u>	<u>52,412</u>
Segment result	<u>(4,692)</u>	<u>(354)</u>	<u>(3,523)</u>	<u>(8,569)</u>
Unallocated income				10,839
Unallocated expenses				<u>(15,230)</u>
Loss before tax from continuing operations				<u>(12,960)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2011 (unaudited)

#### Continuing operations

	CG creation and production HK\$'000	CG training courses HK\$'000	Cultural park HK\$'000	Consolidated HK\$'000 (restated)
Revenue	<u>21,337</u>	<u>7,936</u>	<u>396</u>	<u>29,669</u>
Segment result	<u>(16,180)</u>	<u>147</u>	<u>(3,212)</u>	(19,245)
Unallocated income				473
Unallocated expenses				(8,040)
Share of loss of an associate				<u>(81)</u>
Loss before tax from continuing operations				<u>(26,893)</u>

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

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

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
<b>Continuing operations</b>		
CG creation and production	<b>604,631</b>	672,366
CG training courses	<b>15,351</b>	15,921
Cultural park	<u><b>290,122</b></u>	<u>227,427</u>
Total segment assets	<u><b>910,104</b></u>	<u>915,714</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 4. REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Revenue from contracts for CG creation and production	21,226	12,789	29,524	17,289
Rental income	8,020	4,252	14,964	4,444
Training fee	3,737	3,865	7,924	7,936
	<u>32,983</u>	<u>20,906</u>	<u>52,412</u>	<u>29,669</u>

### 5. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>				
Interest income on bank balances	3,851	150	5,812	379
Government grants (Note)	–	1,022	2,804	1,321
Dividend income from available-for-sale investments	10,834	–	10,834	–
Others	46	525	46	965
	<u>14,731</u>	<u>1,697</u>	<u>19,496</u>	<u>2,665</u>

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.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>				
Interest on bank borrowing:				
– wholly repayable within five years	2,913	–	5,906	–
– not wholly repayable within five years	–	2,608	–	5,100
	<u>2,913</u>	<u>2,608</u>	<u>5,906</u>	<u>5,100</u>

### 7. OTHER GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>				
Changes in fair value of held-for-trading investments	372	(22)	(4,059)	(548)
Loss on disposal of property, plant and equipment	(27)	–	(757)	–
	<u>345</u>	<u>(22)</u>	<u>(4,816)</u>	<u>(548)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 8. INCOMETAX EXPENSE

Three months ended 30 June		Six months ended 30 June	
2012	2011	2012	2011
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(unaudited)	(unaudited) (restated)	(unaudited)	(unaudited) (restated)

#### **Continuing operations**

Current tax:

PRC Enterprise Income  
Tax ("EIT")

-	-	-	36
---	---	---	----

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

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

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 six months ended 30 June 2012, the relevant tax rates for the Group's subsidiaries in the PRC were 25% (Six months ended 30 June 2011: 24% to 25%).

No provision for tax in other jurisdictions has been made in the condensed consolidated statement of comprehensive income for both periods as the Group had no assessable profit from continuing operations arising in other jurisdictions.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 9. PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>				
Profit (loss) for the period has been arrived at after charging:				
Write-down on programmes (included in cost of sales)	2,439	–	2,439	–
Amortisation of prepaid lease payments	34	33	68	65
Depreciation of property, plant and equipment	5,520	6,248	11,397	11,702
Less: amounts included in contract costs	(426)	(1,287)	(1,223)	(1,998)
amounts included in productions work in progress	(4)	(2)	(4)	(68)
	<u>5,090</u>	<u>4,959</u>	<u>10,170</u>	<u>9,636</u>
Advertising expenses (included in distribution costs and selling expenses)	4,480	688	4,732	1,150
Staff costs	20,479	18,694	41,049	31,554
Less: amounts included in contract costs	(2,928)	(5,378)	(7,819)	(7,795)
amounts included in productions work in progress	(23)	(39)	(23)	(233)
	<u>17,528</u>	<u>13,277</u>	<u>33,207</u>	<u>23,526</u>
Contract costs recognised as an expense	<u>17,481</u>	<u>11,062</u>	<u>26,949</u>	<u>19,129</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 10. 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, 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, 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 holds approximately 11.90% of the issued share capital of GDC Tech (see Note 15) 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 operated by GDC Tech Group and GDC DCN Group respectively, were considered as discontinued operations since 6 September 2011.

The comparative figures presented in the condensed consolidated statement of comprehensive income have been restated to classify the results of these operations as discontinued operations.

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 results of the discontinued operations for the six months ended 30 June 2011 were as follows:

	<i>HK\$'000</i>
Revenue	298,018
Cost of sales	<u>(152,886)</u>
Gross profit	145,132
Other income and gains	2,314
Distribution costs and selling expenses	(11,702)
Administrative expenses	(32,578)
Finance costs	(180)
Research and development costs	<u>(4,408)</u>
Profit before tax	98,578
Income tax expense	<u>(15,946)</u>
Profit from discontinued operations	<u>82,632</u>

### 11. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 12. EARNINGS (LOSS) PER SHARE

*From continuing and discontinued operations*

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

	Three months ended 30 June 2012 HK\$'000 (unaudited)		Six months ended 30 June 2012 HK\$'000 (unaudited)	
	2011 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
<b>Earnings (loss)</b>				
Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the period attributable to owners of the Company)	3,976	18,988	(10,294)	22,448
Effect of dilutive potential ordinary shares:				
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	—	(461)	—	(758)
Earnings (loss) for the purpose of diluted earnings (loss) per share	3,976	18,527	(10,294)	21,690
	'000	'000	'000	'000

### Number of shares

Number of ordinary shares for the purposes of basic and diluted earnings (loss) per share

	1,518,256	1,295,256	1,518,256	1,295,256
--	-----------	-----------	-----------	-----------

The computation of diluted earnings per share for the three months ended 30 June 2011 and 2012, and six months ended 30 June 2011 does not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price of the shares for the respective periods.

The effect of incremental shares from assumed exercise of share options has been excluded from calculation of the diluted loss per share from continuing and discontinued operations for the six months ended 30 June 2012 because their assumed exercise would result in decrease in loss per share from continuing operations.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 12. EARNINGS (LOSS) PER SHARE (Continued)

#### From continuing operations

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

Three months ended 30 June 2012 HK\$'000 (unaudited)		2011 HK\$'000 (unaudited)	Six months ended 30 June 2012 HK\$'000 (unaudited)		2011 HK\$'000 (unaudited)
--	--	---------------------------------	--	--	---------------------------------

#### Earnings (loss)

Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss)) for the period from continuing operations attributable to the owners of the Company)

<u>3,976</u>	<u>(8,274)</u>	<u>(10,294)</u>	<u>(25,963)</u>
--------------	----------------	-----------------	-----------------

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share from continuing and discontinued operations.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Carrying values	
	2012 HK\$'000	2011 HK\$'000
At 1 January (audited)	306,878	312,578
Exchange realignment	(3,711)	7,165
Additions	2,454	23,809
Depreciation for the period	(11,397)	(13,408)
Disposals	<u>(1,131)</u>	<u>(328)</u>
At 30 June (unaudited)	<u>293,093</u>	<u>329,816</u>

During the six months ended 30 June 2012, the management of the Group performed an impairment assessment on the cash generating unit ("CGU") relating to the CG creation and production operating segment whereby property, plant and equipment with aggregate carrying amount of approximately HK\$281,464,000 (31 December 2011: HK\$293,792,000) as at 30 June 2012 are included. 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 8.5% (31 December 2011: 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. Cash flows beyond the five-year period is extrapolated using a growth rate of 4%. The recoverable amount exceed the carrying amount of the CGU and accordingly on impairment of the assets the CGU is considered necessary.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 14. INVESTMENT PROPERTIES

	<b>Properties interest under construction 2012 HK\$'000</b>	2011 HK\$'000
<b>COST</b>		
At 1 January (audited)	<b>170,605</b>	95,395
Exchange realignment	<b>(2,802)</b>	2,299
Additions	<b>59,131</b>	28,813
	<b>226,934</b>	126,507
At 30 June (unaudited)	<b>226,934</b>	126,507

The investment properties represent the properties interest held under an operating lease on a property project under construction. The investment properties are located at No. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC with a lease term of 35 years and stated at cost as the fair value of the properties under construction cannot be reliably measured. The additions represent the construction costs incurred for Phase I of the property project during the interim periods.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 15. AVAILABLE-FOR-SALE INVESTMENTS

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
11.90% equity interest in GDC Tech	<b>84,393</b>	84,393
5% equity interest in a private entity established in the PRC	<b>610</b>	617
	<b>85,003</b>	85,010

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.

### 16. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Non-current:		
Deposits (Note)	<b>24,390</b>	24,691
Current:		
Deposits	<b>565</b>	739
Prepayments	<b>4,754</b>	8,753
Others	<b>2,185</b>	1,402
	<b>7,504</b>	10,894

Note: The non-current deposit was paid by the Group to a third party of RMB20,000,000 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 two to three years.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 17. PROGRAMMES

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Completed television series, net of allowance of HK\$3,719,000 (31 December 2011: HK\$1,295,000)	<u>6,402</u>	<u>8,922</u>

### 18. TRADE RECEIVABLES

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Trade receivables	12,975	8,735
Less: allowance for doubtful debts	<u>—</u>	<u>—</u>
	<u>12,975</u>	<u>8,735</u>

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 trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Within three months	12,920	8,580
Three to six months	—	99
Over six months	<u>55</u>	<u>56</u>
	<u>12,975</u>	<u>8,735</u>

### 19. STRUCTURED DEPOSITS

During the six months ended 30 June 2012, the Group redeemed the structured deposits.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 20. TRADE PAYABLES

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

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Within three months	1,875	666
Three to six months	6	13
Over six months	<u>603</u>	<u>597</u>
	<u><b>2,484</b></u>	<u>1,276</u>

The average credit periods on purchases of goods are 60 days.

### 21. SECURED BANK BORROWING

As at 30 June 2012, 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, certain plants and machineries and prepaid lease payments, 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 is 7.05% (31 December 2011: 6.14% to 7.05%) per annum. Interest is repricing every month.

During the six months ended 30 June 2012, the Group did not obtain new bank borrowing (six months ended 30 June 2011: HK\$25,007,000) and repaid bank borrowings of approximately HK\$12,346,000 (six months ended 30 June 2011: HK\$44,025,000) in accordance with the repayment terms.

### 22. SHARE CAPITAL

Share capital as at 30 June 2012 amounted to approximately HK\$15,183,000. There were no movements in the share capital of the Company in the current or the prior interim period.

### 23. CAPITAL COMMITMENTS

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of additions in investment properties	<u><b>86,551</b></u>	<u>104,093</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 24. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible Directors, employees and other participants of the Group. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b> '000
At 1 January 2012 (audited)	83,020
Lapsed during the period	<u>(3,580)</u>
At 30 June 2012 (unaudited)	<u>79,440</u>

No share option was granted or exercised during the six months ended 30 June 2012 and 2011. 3,580,000 (Six months ended 30 June 2011: 500,000) share options were lapsed during the six months ended 30 June 2012.

### 25. 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 former subsidiaries namely GDC Tech, 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the periods ended 30 June 2012

### 25. LITIGATION (Continued)

During the mediation on 9 March 2012, X6D and the Group reached an agreement to settle the dispute out of the Court. The settlement agreement was finalised and signed on 13 June 2012, and all claims pending between X6D and the Group were 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 condensed consolidated financial statements.

On 5 July 2012, the Court granted an order to dismiss the Defendants' claim against X6D in their entirety.

### 26. RELATED PARTY TRANSACTIONS

The remuneration of the Directors and other key management personnel during the six months ended 30 June 2012 is as follows:

	Three months ended 30 June 2012 HK\$'000 (unaudited)		2011 HK\$'000 (unaudited)		Six months ended 30 June 2012 HK\$'000 (unaudited)		2011 HK\$'000 (unaudited)	
<b>Continuing operations</b>								
Short-term benefits	2,651	2,195	5,302	4,335				
Post-employment benefits	18	21	36	42				
	<u>2,669</u>	<u>2,216</u>	<u>5,338</u>	<u>4,377</u>				

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

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

**TO THE BOARD OF DIRECTORS OF GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED**

環球數碼創意控股有限公司

*(incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Global Digital Creations Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 5 to 27, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the HKICPA. A review of condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statements of comprehensive income and the relevant explanatory notes for each of the three months periods ended 30 June 2012 and 2011 disclosed in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

9 August 2012

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

Revenue from continuing operations for the six months ended 30 June 2012 was HK\$52,412,000, when compared with that of HK\$29,669,000 for the corresponding period in the year 2011, representing an increase of 77%. The increase was mainly attributable to an increase in revenue from contracts for computer graphic (“CG”) creation and production and rental income by HK\$12,235,000 and HK\$10,520,000 respectively.

Cost of sales from continuing operations for the six months ended 30 June 2012 amounted to HK\$35,972,000, when compared with that of HK\$23,598,000 for the corresponding period in the year 2011, representing an increase of 52%. The increase was mainly due to the depreciation amounting to HK\$4,895,000 for the Shenzhen headquarters building which generated rental income for the Group since the second quarter of year 2011 and more CG production costs incurred.

The Group recorded a gross profit from continuing operations of HK\$16,440,000 for the six months ended 30 June 2012, when compared with that of HK\$6,071,000 for the corresponding period in the year 2011, representing an increase of 171%. The Group’s gross profit margin of continuing operations for the six months ended 30 June 2012 amounted to 31% (Six months ended 30 June 2011: 20%). The improvement in the gross profit margin was mainly attributable to increase in rental income and the fact that the Group worked on more CG production projects with higher profit margin.

Other income from continuing operations for the six months ended 30 June 2012 amounted to HK\$19,496,000 (Six months ended 30 June 2011: HK\$2,665,000), representing a significant increase of 632%. The increase was mainly due to dividend income of HK\$10,834,000 received during the period and an increase in interest income and government grant by HK\$5,433,000 and HK\$1,483,000 respectively.

Distribution costs and selling expenses from continuing operations for the six months ended 30 June 2012 amounted to HK\$7,181,000 (Six months ended 30 June 2011: HK\$3,797,000), representing an increase of 89%. The increase was mainly due to more marketing expenses spent on CG production projects during the period.

Administrative expenses from continuing operations for the six months ended 30 June 2012 amounted to HK\$30,993,000 (Six months ended 30 June 2011: HK\$26,103,000), representing an increase of 19%. The increase was mainly due to higher staff costs and office operating expenses as a result of the growth in the scale of operations of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL OVERVIEW *(Continued)*

Finance costs from continuing operations for the six months ended 30 June 2012 amounted to HK\$5,906,000 (Six months ended 30 June 2011: HK\$5,100,000), which mainly included interest on bank borrowing for the headquarters building in Shenzhen which is not eligible for capitalisation upon completion of the construction.

Other gains and losses from continuing operations for the six months ended 30 June 2012 amounted to HK\$4,816,000 (Six months ended 30 June 2011: HK\$548,000). It included change in fair value of held-for-trading investments of HK\$4,059,000 (Six months ended 30 June 2011: HK\$548,000) and loss on disposal of property, plant and equipment of HK\$757,000 (Six months ended 30 June 2011: Nil).

Overall, the Group recorded a loss of HK\$10,294,000 for the six months ended 30 June 2012 attributable to owners of the Company, when compared with the profit attributable to owners of the Company of HK\$22,448,000 for the corresponding period in the year 2011. In the corresponding period in the year 2011, profit attributable to owners of the Company included HK\$48,411,000 contributed by the Group's digital content distribution and exhibitions and deployment of digital cinema network operations, which have been discontinued following the disposal of such business by the Group in September 2011.

Basic and diluted loss per share from continuing and discontinued operations for the six months ended 30 June 2012 amount to HK 0.68 cents (Basic and diluted earnings per share for the six months ended 30 June 2011: HK 1.73 cents and HK 1.67 cents respectively). Basic and diluted loss per share from continuing operations for the six months ended 30 June 2012 amounted to HK 0.68 cents (Six months ended 30 June 2011: HK 2.00 cents), representing an improvement of 66% when compared with that for the corresponding period in the year 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW AND OUTLOOK

#### *CG creation and production*

For the six months ended 30 June 2012, revenue from CG creation and production division was HK\$44,145,000, representing a significant increase of HK\$22,808,000 when compared with the HK\$21,337,000 for the corresponding period in the year 2011. The increase comprised increase in revenue from contracts for CG creation and production and rental income by HK\$12,235,000 and HK\$10,573,000, respectively.

The Group currently has four CG production projects in progress from European clients and there are several co-production projects and service projects with completed tests or under commercial negotiations, three of which are from North America and Europe and are expected to commence production in the third and fourth quarters of the year 2012. A string of projects produced by the Group in the recent years have been launched on major European and American entertainment media and are highly appreciated by clients and the industry. While constantly providing quality products and services to clients, the Group will improve financial control and productivity to address the challenges from exchange rate fluctuations and the hiking labour costs in a bid to boost its business performance.

The Group's diversification into intellectual property investment has achieved a preliminary success. One 3D-animated film was publicly released in the PRC in June 2012 which drew big audiences compared with the domestic films in the same period. One 3D-animated television series has also commenced domestic and overseas distribution while certain countries and regions have confirmed their purchases. In addition, the Group has initiated the planning of new intellectual property animation projects, including certain projects which have started production of the first print or negotiations on cooperation with several companies showing interests, and intends to expand to the animation-related businesses.

In view of the broadening applications of CG creation and production and the continuous expansion of relevant businesses in the PRC, the Group adjusted and consolidated the production business. The operation in Chongqing has been consolidated to Shenzhen and two new subsidiaries have been established respectively in Beijing and Shenzhen to expand new businesses. After completion of a creative production project on a large theme park in Shenzhen last year, the Group has started production of certain new projects, among which the Beijing branch is working with CCTV and a well-known website to provide 3D animation production services for the European Cup project and the report of Shenzhou-9 respectively, both well-reputed.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW AND OUTLOOK *(Continued)*

#### *CG training*

The CG training division made steady business expansion in the second quarter of 2012. With the recovery of the market, exceptional progress was made in the area of recruitment with notable growths both in recruitment hotline enquires and enrolments compared to the same period last year. While aggressively recruiting, the CG training exercised strict control over the quality of education to hone the professional capability of graduates and maintained long-term talent output cooperation with plenty of domestic production enterprises, thus improving the employment rate of students after graduation and building up a sound training brand image.

The CG training division is attempting to join forces with various TV, film and animation producers and game developers to provide specially tailored training courses targeting firms' job requirements, so as to further shorten students' time to accustom to their jobs once they join and increase firms' productivity.

In addition, the Group continues to seek cooperation with colleges in the PRC to organise "Training on Campus" and "Skills and Qualifications" training programmes so as to offer "One Course, Multiple Certifications" and enable immediate employment after graduation.

Recently, the Group has jointly established the "Alliance of Hundred Universities Original Animation Talent" with Tencent Original Animation Talent Union to recruit and seek for talents in the PRC universities in order to broaden the source of students.

#### *Cultural park*

The fundamental construction works, mechanical and electrical installation and interior and exterior decoration works of the redevelopment project of Phase I of the Pearl River Film Cultural Park were completed in June 2012.

With the smooth progress of business promotion for the Phase I of the Pearl River Film Cultural Park, the Group has entered into letters of intents of lease with a number of renowned domestic and foreign brands, which are expected to develop the Pearl River Film Cultural Park as a fashionable lifestyle centre that is rich in Guangzhou culture and in line with its overall positioning.

The redevelopment project of Phase II of the Pearl River Film Cultural Park has also proceeded well with interim approvals obtained from relevant regulatory authorities of the PRC. Meanwhile, the Group has commenced concept design with several renowned architects, commercial consultants and property management companies for the project of Phase II of the Pearl River Film Cultural Park. The redeveloped Pearl River Film Cultural Park includes, subject to approval, a commercial complex comprising a cinema, shops, restaurants and recreational zones, and a multi-storey office tower.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### 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 the booming retail and recreation market in the PRC, the Group is of 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 cultural consumption property development businesses in the PRC which have been growing rapidly.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had bank balances and cash of HK\$366.5 million (31 December 2011: HK\$445 million) and no structured deposits (31 December 2011: HK\$1.0 million), which were mainly denominated in Hong Kong dollars, Euro dollars, Renminbi and United States dollars. The net decrease of HK\$79.5 million was the result of cash used in additions in investment properties of HK\$59.1 million and repayment of bank loans of HK\$12.3 million.

As at 30 June 2012, the Group's borrowings amounted to HK\$153.7 million, of which HK\$26.8 million were repayable within twelve months from 30 June 2012 and HK\$126.9 million were repayable after twelve months from 30 June 2012. 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 30 June 2012 was 19% (31 December 2011: 20%). As at 30 June 2012, the Group had a current ratio of 4.3 (31 December 2011: 5.1) based on current assets of HK\$428.4 million and current liabilities of HK\$99.7 million. The improvement in the gearing ratio was mainly attributable to repayment of bank loans during the period.

### CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK\$814.9 million as at 30 June 2012 (31 December 2011: HK\$833.1 million). The decrease was mainly attributable to loss for the six months ended 30 June 2012 attributable to owners of the Company of HK\$10.3 million and exchange differences arising on translation of foreign operations attributable to owners of the Company of HK\$7.9 million.

### MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment during the six months ended 30 June 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CHARGE ON ASSETS

As at 30 June 2012, the Group had the charges on the Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK\$258.7 million which were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK\$153.7 million. As at 30 June 2012, the Group had no unutilised banking facility.

### FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in United States dollars, Euro dollars and Renminbi, 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 do not implement 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 30 June 2012, the Group had no significant exposure under foreign exchange.

### CONTINGENT LIABILITIES

Saved as disclosed in note 25 about litigation proceedings, the Group had no significant contingent liabilities as at 30 June 2012.

### EMPLOYEES

As at 30 June 2012, the Group employed 480 (31 December 2011: 459) 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 six months ended 30 June 2012, neither the Company nor its subsidiaries had paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012. (Six months ended 30 June 2011: Nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2012.

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

As at 30 June 2012, the interests and short positions of the Directors and chief executives 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			Approximate percentage of issued share capital of the Company
		Interests in shares	Interests under equity derivatives*	Total interests	
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%

\* The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 18 July 2003 (the "Share Option Scheme"). Upon exercise of the share options in accordance with the Share Option 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 Scheme" section.

Save as disclosed above, as at 30 June 2012, 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 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2012 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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 the SFO:

### Long positions in the shares of the Company

<u>Name of shareholder</u>	<u>Capacity in which interests are held</u>	<u>Number of shares held in the Company</u>	<u>Approximate percentage of total issued share capital of the Company</u>
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 Concord Grand (Group) Limited ("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-own subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporation are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.*

Save as disclosed above, as at 30 June 2012, 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.

## SHARE OPTION SCHEME

On 18 July 2003, the share option scheme of the Company (the "Share Option Scheme") which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted or exercised in accordance with the terms of the Share Option Scheme during the six months ended 30 June 2012. Details of movements of the share options under the Share Option Scheme during the period are as follows:

Category or name of grantees	Number of shares options to subscribe for shares of the Company						Date of grant	Exercise period	Exercise price per share
	Balance as at 01.01.2012	Transferred to other category during the period	Transferred from other category during the period	Exercised during the period	Lapsed during the period	Balance as at 30.06.2012			
<b>Directors</b>									
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 (resigned on 23 March 2012)	490,000	(490,000) <sup>1</sup>	-	-	-	-	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	1,290,000	(1,290,000) <sup>1</sup>	-	-	-	-	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	1,780,000	(1,780,000)	-	-	-	-			
	43,120,000	(1,780,000)	-	-	-	41,340,000			
<b>Employees of the Group</b>	9,900,000	(9,900,000) <sup>2</sup>	-	-	-	-	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	24,700,000	(8,050,000) <sup>3</sup>	-	-	-	16,650,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	34,600,000	(17,950,000)	-	-	-	16,650,000			
<b>Other participants</b>	4,900,000	-	10,390,000	-	(490,000)	14,800,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	400,000	-	9,340,000	-	(3,090,000)	6,650,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	5,300,000	-	19,730,000	-	(3,580,000)	21,450,000			
	83,020,000	(19,730,000)	19,730,000	-	(3,580,000)	79,440,000			

## SHARE OPTION SCHEME *(Continued)*

Notes:

- 1) *Such share options were re-classified to the category of "Other Participants" upon the grantee ceased to be the director of the Company during the six months ended 30 June 2012. According to the Share Option Scheme, such share options will be lapsed on the expiry of the three months period following the date of cessation as director of the Company.*
- 2) *Such share options were re-classified to the category of "Other Participants" during the six months ended 30 June 2012.*
- 3) *1,800,000 share options will be lapsed on the expiry date of the three months period following the date of cessation as employees of the Group and 6,250,000 share options were re-classified to the category of "Other Participants" during the six months ended 30 June 2012.*

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2012, none of the Directors had an interest in a business (other than those businesses where the Director 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 businesses of the Group.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CGP Code") contained in Appendix 15 to the GEM Listing Rules during the period from 1 January 2012 to 31 March 2012. The CGP Code was amended and renamed by the Stock Exchange as "Corporate Governance Code and Corporate Governance Report" (the "New CG Code") effective on 1 April 2012. The Company has also complied with the code provisions set out in the New CG Code during the period from 1 April 2012 to 30 June 2012.

## COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of provisions of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the six months ended 30 June 2012.



## CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 17.50A (1) of the GEM Listing Rules, the changes in information of Directors are as follows:

- (1) Mr. Leung Shun Sang, Tony ceased to be a chairman of remuneration committee of the Company (the "Remuneration Committee") but remains as a member of the Remuneration Committee from 1 April 2012.
- (2) Prof. Japhet Sebastian Law was appointed as a chairman of the Remuneration Committee from 1 April 2012 and appointed as an independent non-executive director of Regal Hotels International Holdings Limited on 18 June 2012.
- (3) Mr. Chan Chung Chun was appointed as the independent non-executive director and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company on 20 June 2012.

## AUDIT COMMITTEE

The Group's interim results for the six months ended 30 June 2012 were unaudited. However, the Company has engaged the Company's auditor, Messrs. Deloitte Touche Tohmatsu to assist the Company's audit committee (the "Audit Committee") to review the 2012 unaudited interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 3 August 2012 for, amongst other things, reviewing the interim results of the Group for the six month ended 30 June 2012.

## APPRECIATION

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

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

Hong Kong, 9 August 2012