G·D·C

環球數碼

Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

ANNUAL REPORT

2012

* *For identification purpose only*

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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.

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This report, for which the directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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

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 *(Chief Executive Officer)*
Mr. Jin Guo Ping *(Vice President)*

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 (appointed on 20 June 2012)
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. Chan Chung Chun (appointed on 20 June 2012)
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. Chan Chung Chun (appointed on 20 June 2012)
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

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 (appointed on 20 June 2012)
Mr. Hui Hung, Stephen (resigned on 23 March 2012)

COMPLIANCE OFFICER

Mr. Chen Zheng

COMPANY SECRETARY

Ms. Kam Man Yi, Margaret (appointed on 6 February 2013)
Mr. Chiu Ming Kin (resigned on 6 February 2013)

AUTHORISED REPRESENTATIVES

Mr. Chen Zheng
Ms. Kam Man Yi, Margaret (appointed on 6 February 2013)
Mr. Chiu Ming Kin (resigned on 6 February 2013)

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 46, 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"), an executive director and 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 Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange and a director of Wheeling Holdings Limited which is a substantial shareholder 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 53, 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 Chief Executive Officer of the Company. He is also a member of the Executive Committee of the Company. Mr. Chen was an executive director of Shougang Grand. Mr. Chen has extensive experience in investment business and corporate management.

Mr. Jin Guo Ping, aged 54, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed as an Executive Director of the Company in February 2006 and currently is Vice President 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 70. Mr. Leung was appointed as a Non-executive Director of the Company in December 2005. He is also the Vice Chairman of the Nomination Committee and a member of the Remuneration 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 holds a bachelor degree of commerce from the Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co.(Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

BIOGRAPHICAL DETAILS OF DIRECTORS

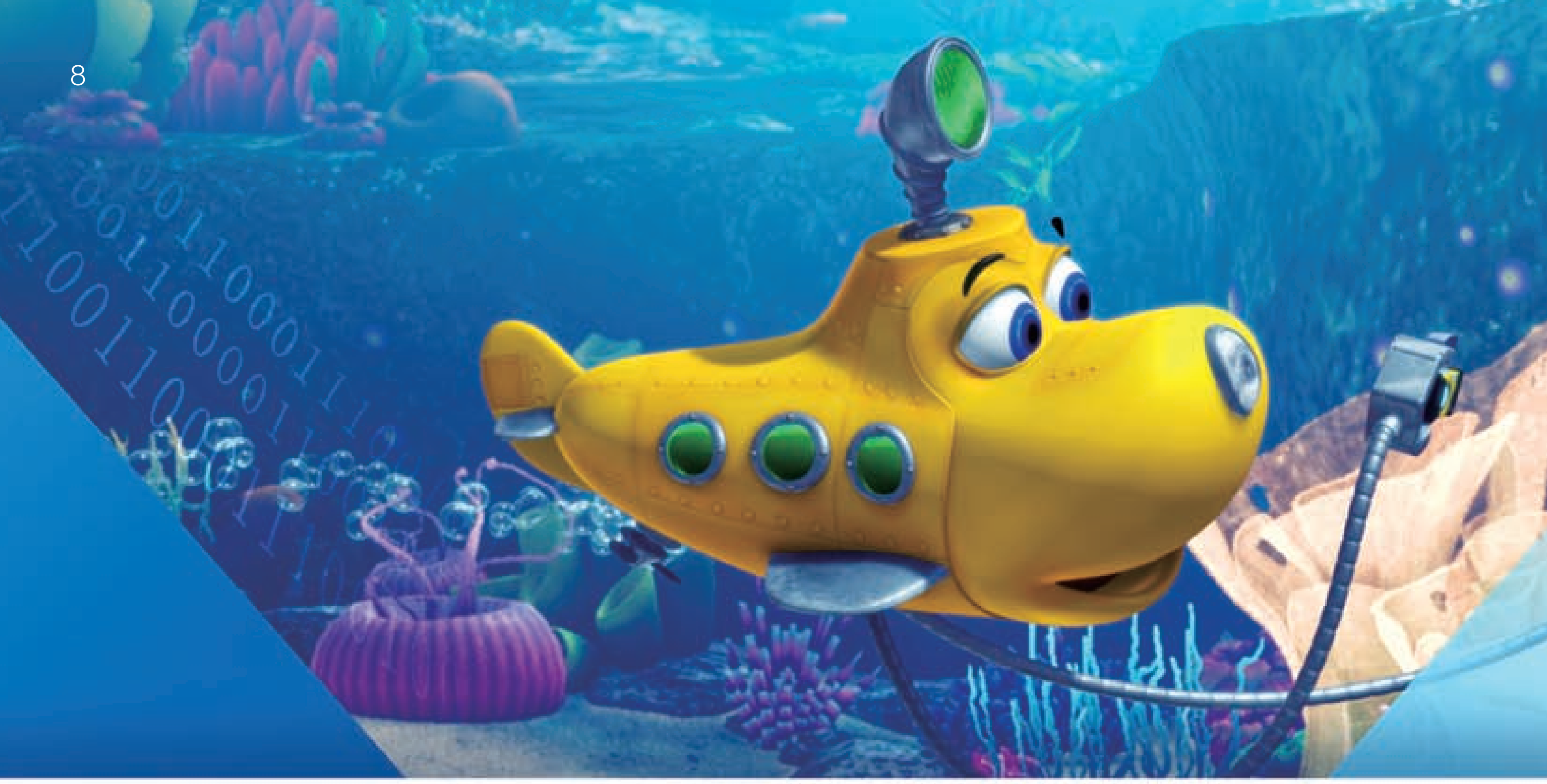
INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Che Keung, Gordon, aged 63. 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, a 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, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited, CITIC Telecom International 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: Tianjin Development Holdings Limited, China Oilfield Services Limited, Frasers Property (China) Limited, COSCO International Holdings Limited, Beijing Capital International Airport Company Limited and Quam 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 61. Prof. Law was appointed as an Independent Non-executive Director of the Company in September 2008. He is also the Chairman of the Remuneration Committee, a member of each of the Audit Committee and Nomination 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 retired in August 2012. Before retirement, he was 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 Company Limited, Binhai Investment Company Limited, Cypress Jade Agricultural Holdings Limited, Regal Hotels International Holdings Limited and Tianjin Binhai Teda Logistics (Group) Corporation Limited, 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. Chan Chung Chun, aged 53. Mr. Chan was appointed as an Independent Non-executive Director of the Company in June 2012. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is a fellow member and an associate member of the Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants respectively. Mr. Chan holds a Bachelor Degree in Commerce from James Cook University of North Queensland and a Master Degree in Commerce from University of New South Wales in Australia. He had worked in the audit department of Ernst & Young for about 7 years and has extensive working experience in accounting and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the People's Republic of China. Mr. Chan is currently the deputy chairman and executive director of Sinocop Resources (Holdings) Limited, an independent non-executive director of Shougang Century and Shougang Res, all of which are listed companies in Hong Kong.

MAIN OPERATIONAL STRUCTURE

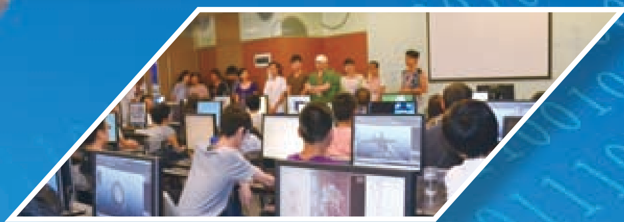


CHAIRMAN'S STATEMENT

The global economic environment for the year 2012 was clouded by uncertainties. The economic outlook remained challenging due to the lingering European debt crisis, slow recovery of the U.S. economy and the looming financial cliff. Despite such uncertainties, the Group managed to achieve growth in its overall gross profit margin, demonstrating initial results of financial control and management optimization.

After the disposal of the digital content distribution and exhibitions division and the deployment of digital cinema network division in September 2011, the Group entered into a transition and development period this year, focusing on the development of three core businesses, including computer graphic ("CG") creation and intellectual property films, CG training programmes and cultural park in Guangzhou.

In the CG production sector, our animation company in Shenzhen was awarded as "Top Ten Most Competitive Enterprises in Service Trade Industry of Shenzhen" in March 2012, representing wide-spread public recognition of our hard work. In view of the broadening applications of CG creation and production in the PRC, the Group established two new subsidiaries in Shenzhen and Beijing respectively, which were focused on development of high-end interactive CG projects and had commenced operation during the year. In less than a year of operation, the new subsidiary company in Shenzhen has achieved outstanding results. In light of the rapid development of CG creation market in Beijing in recent years, the Group seized the chance to establish a subsidiary in Beijing, with an aim to further expanding our business coverage and exploring more business opportunities.



As to the intellectual property animation projects, one 3D-animated film produced by the Group was publicly released in over 2,000 cinemas in the PRC with satisfactory box office receipt. This demonstrated wide recognition of our animation production by the mass audience, laying a solid foundation for our future development in film production. In addition, one short 3D-animated film produced by the Group which has won a number of domestic and international awards was invited to participate the film exhibition of the 7th Asia Pacific Triennial of Contemporary Art in Australia. This public release in the overseas exhibition will enhance our influence in the international market and strengthen our brand position in the global animation industry. The Group will continue to embark on investments in own-branded intellectual property films. One 3D-animated film has been finished and is expected to be released in the PRC in mid 2013, while another new 3D-animated film is currently under the stage of comprehensive production and is expected to be finished by the end of year 2013.

The business of CG training division remained stable. It was mainly attributable to the fact that there were over four hundred colleges across the country which provided animation and related specialty courses, resulting in intensified competition in the industry. During 2012, we invested more efforts and resources and took more effective measures to exercise strict control over the quality of education in order to enhance our professional level of training and competitive capacity. In 2013, we will strive to strengthen our team and diversify the product portfolio with a view to expanding the source of revenue.

As a theme park of music and films, Guangzhou Pearl River Film Cultural Park is intended to become an international venue for cultural creation. Its redevelopment project of Phase I was successfully completed in December 2012. With the smooth progress of business promotion, the Group has entered into lease contracts with a number of renowned domestic and foreign brands. It is expected to bring sustainable and steady rental income to the Group starting from 2013. At present the Group is actively making preparation for Phase II redevelopment project. The Group has finished concept design with several renowned domestic and foreign architects and business consultants for Phase II redevelopment project. We believe that the completed Cultural Park will become a sustainable and growing source of revenue for the Group in the future and will improve our brand image in the cultural industry.

Going forward, with the benefit of the great policy support from the government for cultural industry, the Group will continue to take steady steps to develop intellectual property animation and digital culture projects. By strengthening our team of animation talents and enhancing the synergy effects between business units, we endeavor to provide diversified and high quality production to clients while increasing our brand value. Meanwhile, the Group will boost its business performance and maximize returns for our shareholders through effective cost control, optimized management and improved productivity.

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

Li Shaofeng
Chairman

Hong Kong, 27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue from continuing operations for the year ended 31 December 2012 was HK$111,022,000, when compared with that of HK$94,677,000 for the year 2011, representing an increase of 17%. The increase was mainly attributable to revenue from the release of a 3D-animated film amounting to HK$6,302,000 and increase in rental income by HK$9,787,000.

Cost of sales from continuing operations for the year ended 31 December 2012 amounted to HK$74,932,000, when compared with that of HK$69,390,000 for the year 2011, representing an increase of 8%. The increase was mainly due to an increase in the allowance for programmes amounting to HK$3,770,000.

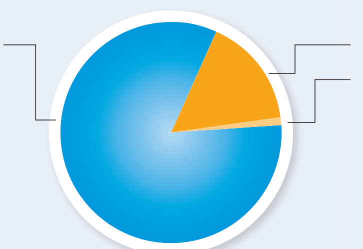
The Group recorded a gross profit from continuing operations of HK$36,090,000 for the year ended 31 December 2012, when compared with that of HK$25,287,000 for the year 2011, representing an increase of 43%. The Group's gross profit margin of continuing operations for the year ended 31 December 2012 amounted to 33% (2011: 27%). The improvement in the gross profit margin was mainly attributable to an increase in rental income and income from a 3D-animated film.

Other income from continuing operations for the year ended 31 December 2012 amounted to HK$32,389,000 (2011: HK$14,735,000), representing a significant increase of 120%. The increase was mainly due to increases in bank interest income, government grants and dividend income by HK$8,148,000, HK$8,008,000 and HK$2,795,000 respectively.

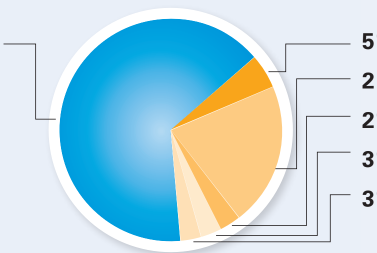
FINANCIAL OVERVIEW *(CONTINUED)*

Distribution costs and selling expenses from continuing operations for the year ended 31 December 2012 amounted to HK$12,644,000 (2011: HK$6,716,000), representing an increase of 88%. The increase was mainly due to an increase in marketing expenses spent on the release of a 3D-animated film during the year.

REVENUE BY PRINCIPAL ACTIVITY OF CONTINUING OPERATIONS FOR THE YEAR 2012



REVENUE BY GEOGRAPHICAL LOCATION OF CONTINUING OPERATIONS FOR THE YEAR 2012



FINANCIAL OVERVIEW *(CONTINUED)*

Administrative expenses from continuing operations for the year ended 31 December 2012 amounted to HK$60,133,000 (2011: HK$58,573,000), representing a slight increase of 3%. The increase is resulted from an increase in staff cost and decrease in legal and professional fee.

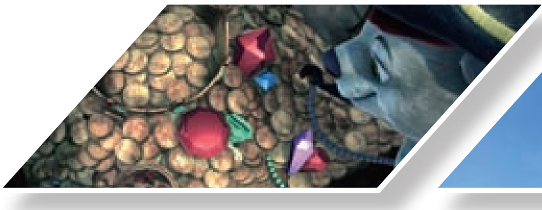
Changes in the fair value of investment properties from continuing operations for the year ended 31 December 2012 was HK$148,460,000 (2011: Nil). Such change in the fair value was arisen from Phase I of the Pearl River Film Cultural Park, which was completed at the end of year 2012.

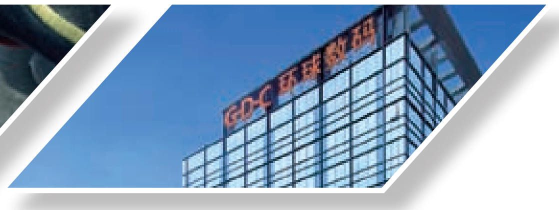
Finance costs from continuing operations for the year ended 31 December 2012 amounted to HK$11,353,000 (2011: HK$10,363,000), which mainly included interest on bank borrowings for the construction of the headquarters building in Shenzhen which is not eligible for capitalisation upon completion of the construction.

Other expenses and losses from continuing operations for the year ended 31 December 2012 amounted to HK$2,721,000 (2011: HK$3,509,000). It included change in fair value of held-for-trading investments of HK$2,020,000 (2011: HK$3,509,000) and loss on disposal of property, plant and equipment of HK$701,000 (2011: Nil).

As a whole, the Group recorded a profit attributable to owners of the Company of HK$60,463,000 for the year ended 31 December 2012, when compared with the profit attributable to owners of the Company of HK$306,180,000 for the year 2011. In the year 2011, profit attributable to owners of the Company included HK$387,146,000 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 businesses by the Group in September 2011.

Basic and diluted earnings per share from continuing and discontinued operations for the year ended 31 December 2012 amount to HK3.98 cents (2011: HK22.69 cents and HK22.68 cents respectively). Basic and diluted earning per share from continuing operations for the year ended 31 December 2012 amounted to HK3.98 cents (Basic and diluted loss per share from continuing operations in 2011: HK2.57 cents), representing an improvement of 255% when compared with that for the year 2011.





BUSINESS REVIEW AND OUTLOOK

CG creation and production

For the year ended 31 December 2012, revenue from CG creation and production division was HK$91,908,000, representing a significant increase of HK$15,656,000 when compared with that of HK$76,252,000 for the year 2011. The increase was attributable to revenue from the release of a 3D-animated film amounting to HK$6,302,000 and increase in rental income from the headquarters building in Shenzhen by HK$9,354,000.

The Group adjusted and consolidated CG creation and production in the year 2012. The operation in Chongqing has been consolidated to Shenzhen, which will help to improve cost efficiency. The Group completed twenty-four CG production projects during the year. Most of our clients are from Europe, America, Australia and the PRC. The completed projects have been launched on major entertainment media in the regions where our clients come from and are highly appreciated by clients and the industry. The Group currently has six CG production projects in progress from clients in North America and Europe and there are several co-production projects and service projects with completed tests or under commercial negotiations. In addition, two new subsidiaries namely 深圳市環球數碼創意科技有限公司 ("GDC Shenzhen") and 北京風雲環球數碼傳媒技術有限公司 ("GDC Beijing") have been established respectively in Shenzhen and Beijing to expand new businesses and geographical coverage, whose main scope of business is to provide clients with interactive CG production with high-end technology. After completion of a creative production project for a large theme park in Shenzhen last year, the Group has started production of certain new projects, among which GDC Beijing had worked with China Central Television and a well-known website to provide 3D animation production services to the European Cup project and the report of Shenzhou-9 respectively, both well-reputed. Although GDC Shenzhen has only operated for less than one year, it has generated profit for the Group. GDC Shenzhen has successfully won contracts for two new projects from our current clients. Going forward, in addition to continuous cooperation with the large theme park in Shenzhen, the Company will actively seek more potential clients to expand business opportunities. Though GDC Beijing has not yet contributed profit to the Group, it currently has six projects in discussion. It is anticipated that GDC Beijing will be able to achieve target in year 2013.

As to the intellectual property projects, "Happy Little Submarines II", a 3D-animated film created and produced by the Group, was released in over 2,000 cinemas in the PRC in June 2012 with positive response. "Happy Little Submarines III" has been finished and is expected to be released in the PRC in mid 2013. Meanwhile, the Group has started the production of another 3D-animated film which is expected to be completed by the end of year 2013. The Group has initiated the planning of new intellectual property animation projects, including certain projects which have started production of the first print and negotiations on cooperation with several companies, and intends to expand to the animation-related businesses.

BUSINESS REVIEW AND OUTLOOK *(CONTINUED)*

The headquarters building in Shenzhen generated rental income of HK$32,089,000 for the Group for the year 2012. In the year 2012, the rent in Shenzhen property market rose steadily. Currently, the leasing of the headquarters building is satisfactory, which will continue to bring stable income to the Group in the future.

CG training

For the year 2012, the revenue from CG training business amounted to HK$17,808,000, representing a slight increase of 1% when compared with that of HK$17,552,000 for the year 2011. Despite greater competition in the industry, desirable progress was made in the area of recruitment with growth in both recruitment hotline enquires and enrolments compared to the same period in the year 2011. While aggressively recruiting, the CG training division exercised strict control over the quality of education to guard 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. The Group also 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.

During the year, the CG training division attempted to cooperate with various TV, film and animation producers and game developers to provide specially tailored training courses that meet enterprises' job requirements, so as to provide the necessary hands-on experiences to enable the graduates, to become productive once they join the enterprises. In addition, the CG training division collaborated with Tencent Original Animation Talent Union to further enhance exchange and promotion of platform resources, industry resources and quality works resources. It also cooperates with a number of software companies to provide training services regarding the latest software.

In the year 2013, the CG training division will focus on enhancing its core competitive power by putting more efforts in network promotion and marketing and improving the reputation of the training school so as to increase the revenue from training. In order to meet the demands from students, the CG training division will diversify the product portfolio by providing various training courses, and continue to cooperate with colleges to develop more cooperation plans with an aim to offer more options for the students.

BUSINESS REVIEW AND OUTLOOK *(CONTINUED)*

Cultural park

The Pearl River Film Cultural Park which is located at a prime location in Guangzhou is planned to be redeveloped at stages, covering an area of approximately 120,000 square meters. Phase I of the Pearl River Film Cultural Park was successfully completed in December 2012 with three storeys. The external landscaping works were also completed in January 2013 with a lettable floor area of approximately 14,000 square meters.

With the smooth progress of business promotion for Phase I of the Pearl River Film Cultural Park, the Group has entered into tenancy agreements or letters of intent to lease with a number of renowned domestic and foreign brands, and started trial operation of Phase I project in December 2012. With the high praise from the shops and clients during the trial operation, it is expected to bring rental income to the Group in year 2013.

The redevelopment project of Phase II of the Pearl River Film Cultural Park has 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 Phase II of the Pearl River Film Cultural Park project.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had bank balances and cash of HK$309,178,000 (2011: HK$444,976,000) which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars, and no structured deposits (2011: HK$988,000). The net decrease of HK$136,786,000 was the result of cash used in additions in investment properties of HK$106,768,000 and repayment of bank loans of HK$24,691,000.

As at 31 December 2012, the Group's borrowings amounted to HK$145,000,000, of which HK$30,000,000 were repayable within twelve months from 31 December 2012 and HK$115,000,000 were repayable after twelve months from 31 December 2012. The borrowings were 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 2012 was 16% (2011: 20%). As at 31 December 2012, the Group had a current ratio of 2.2 (2011: 5.1) based on current assets of HK$378,263,000 and current liabilities of HK$170,254,000. The improvement in the gearing ratio was mainly attributable to the repayment of the bank loan of HK$24,691,000 during the year.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to HK$904,521,000 as at 31 December 2012 (2011: HK$833,098,000). The increase was mainly attributable to profit for the year ended 31 December 2012 attributable to owners of the Company of HK$60,463,000 and exchange differences arising on translation of foreign operations of HK$10,921,000.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group did not have any material acquisitions, disposals and significant investment during the year ended 31 December 2012.

CHARGE ON ASSETS

As at 31 December 2012, the Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK$259,091,000 were pledged to a bank to secure for bank borrowings with an outstanding amount of HK$145,000,000. As at 31 December 2012, the Group had no unutilised banking facility.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in Renminbi, Euro and United States dollars while costs are mainly incurred 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 2012, the Group had no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 40 about litigation proceedings, the Group had no significant contingent liabilities as at 31 December 2012.

EMPLOYEES

As at 31 December 2012, the Group employed 509 (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 year ended 31 December 2012, 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.

CORPORATE GOVERNANCE CODE

The Company has complied with the Code on Corporate Governance Practices (effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (effective from 1 April 2012) (the "New CG Code") during the period from 1 April 2012 to 31 December 2012 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").

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 to the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2012.

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 2012, 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. Chan Chung Chun. 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. All Directors have given sufficient time and attention to the affairs of the Group and the Board has a balance of skills, experience, knowledge and professionalism appropriate for the requirements of the businesses of the Group. Details of backgrounds and qualification of the Directors are set out in the "BIOGRAPHICAL DETAILS OF DIRECTORS" of this annual report.

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 and attendance

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 five Board meetings during the year ended 31 December 2012. The Directors had made active contribution to the affairs of the Group and five Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the quarterly results, interim results and annual results of the Group. The attendance records of the Board meetings held in the year 2012 are set out below:

BOARD OF DIRECTORS *(Continued)*

Board meetings and attendance *(Continued)*

	Attended/Eligible to attend
Executive Directors	
Mr. Li Shaofeng *(Chairman)*	5/5
Mr. Chen Zheng	5/5
Mr. Jin Guo Ping	5/5
Non-executive Director	
Mr. Leung Shun Sang, Tony	5/5
Independent Non-executive Directors	
Mr. Kwong Che Keung, Gordon	5/5
Prof. Japhet Sebastian Law	5/5
Mr. Chan Chung Chun *(appointed on 20 June 2012)*	3/3
Mr. Hui Hung, Stephen *(resigned on 23 March 2012)*	1/1

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

Access to information

The Directors may 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 Independent 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 the 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.

BOARD OF DIRECTORS *(Continued)*

Directors' continuing training and development

The Directors are committed to complying with the New CG Code A.6.5 which came into effect on 1 April 2012 regarding continuous professional develop for Directors. All Directors have participated in continuous professional development and provided a record of training they received during the period from 1 April 2012 31 December 2012 to the Company.

According to the records provided by the Directors, a summary of the training received by the Directors is set out as follows:–

Directors	**Reading materials and updates relating to the latest development of the GEM Listing Rules and other applicable regulatory requirements**	**Attending or participating in seminars/workshops**
Executive Directors		
Mr. Li Shaofeng	✓	✓
Mr. Chen Zheng	✓	✓
Mr. Jin Guo Ping	✓	✓
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	✓	✓

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 CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Li Shaofeng acted as the Chairman and Mr. Chen Zheng serves as the Chief Executive Officer of the Company. The Chairman provides leadership for the Board and overall strategy formulation for the Group. The Chief Executive Officer has overall responsibility for the Group's business development and day-to-day management. The division of responsibilities between the Chairman and the Chief Executive Officer 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.

NON-EXECUTIVE DIRECTOR

The Non-executive Director provides a wide range of expertise and experience as well as checks and balances to safeguard the interests of the Group and its shareholders. The Non-executive Directors of the Company has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2011 and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

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. Two of the Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon and Mr. Chan Chung Chun have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each Independent Non-executive Director an annual confirmation of his independence for the year ended 31 December 2012 pursuant to Rule 5.09 of the GEM Listing Rules and based on the contents of such confirmations, the Company considers all Independent Non-executive Directors to be independent during the year.

All INEDs of the Company were appointed for specific terms and subject to retirement by rotation and re-eletion at the annual general meeting of the Company in accordance with the Bye-laws. Details of the terms are set out in the "Report of the Directors".

DELEGATION BY THE BOARD

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.

Executive Committee

The Executive Committee of the Company (the "Executive Committee") was established in September 2007 and comprises all the Executive Directors of the Company.

During the year ended 31 December 2012, 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.

DELEGATION BY THE BOARD *(Continued)*

Audit Committee

The Audit Committee of the Company (the "Audit Committee") 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 the Stock Exchange's website (www.hkexnews.hk) and the Company's website, respectively.

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, internal control procedures and companies policy which includes the whistleblowing policy reporting system.

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 consists of three Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon, Prof. Japhet Sebastian Law and Mr. Chan Chung Chun (appointed on 20 June 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 Audit Committee held four meetings during the year ended 31 December 2012 with the management and the Company's internal audit manager, two of which was with the external auditor for the purpose of amongs others, reviewing:

- the Group's internal control;
- the final results of the Group for the financial year ended 31 December 2011;
- the quarterly results of the Group for the three months ended 31 March 2012;
- the interim results of the Group for the six months ended 30 June 2012; and
- the quarterly results of the Group for the nine months ended 30 September 2012.

For the year ended 31 December 2012, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

The attendance records of the Audit Committee meetings held in the year 2012 are set out below:

	Attended/Eligible to attend
Mr. Kwong Che Keung, Gordon *(Chairman)*	4/4
Prof. Japhet Sebastian Law	4/4
Mr. Chan Chung Chun *(appointed on 20 June 2012)*	2/2
Mr. Hui Hung, Stephen *(resigned on 23 March 2012)*	1/1

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

DELEGATION BY THE BOARD *(Continued)*

Nomination Committee

The Nomination Committee of the Company (the "Nomination Committee") 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 the Stock Exchange's website (www.hkexnews.hk) and Company's website, respectively.

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.

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. Chan Chung Chun (appointed on 20 June 2012). It is chaired by Mr. Li Shaofeng. The Independent Non-executive Directors constitute the majority of the committee.

For the year ended 31 December 2012, the Nomination Committee held one meeting for the purpose of reviewing the structure of the Board.

The attendance record of the Nomination Committee meeting held in the year 2012 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. Chan Chung Chun	1/1

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

DELEGATION BY THE BOARD *(Continued)*

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") 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 the Stock Exchange's website (www.hkexnews.hk) and the Company's website, respectively.

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.

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.

The Remuneration Committee consists of five Directors namely, Prof. Japhet Sebastian Law, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Mr. Chan Chung Chun. The Remuneration Committee chaired by Mr. Leung Shun Sang, Tony until 31 March 2012 and is chaired by Prof. Japhet Sebastian Law thereafter. The Independent Non-executive Directors constitute the majority of the Remuneration Committee.

DELEGATION BY THE BOARD *(Continued)*

Remuneration Committee *(Continued)*

For the year ended 31 December 2012, two meetings 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 2012; and
- making recommendations to the Board on the directors' fees of the Non-executive Director and Independent Non-executive Directors for the year 2013.

The attendance records of the Remuneration Committee meetings held in the year 2012 are set out as below:

	Attended/Eligible to attend
Prof. Japhet Sebastian Law *(Chairman, appointed on 1 April 2012)*	2/2
Mr. Leung Shun Sang, Tony *(ceased to be the Chairman, effective on 1 April 2012)*	2/2
Mr. Li Shaofeng *(Vice Chairman)*	2/2
Mr. Kwong Che Keung, Gordon	2/2
Mr. Chan Chung Chun *(appointed on 20 June 2012)*	1/1
Mr. Hui Hung, Stephen *(resigned on 23 March 2012)*	1/1

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

Company Secretary

For the year ended 31 December 2012, the company secretary of the Company was Mr. Chiu Ming Kin. Mr. Chiu resigned on 6 February 2013 and was replaced by Ms. Kam Man Yi, Margaret. In accordance with Rule 5.15 of the GEM Listing Rules, Mr. Chiu undertook over 15 hours of professional training to update his skills and knowledge.

DIRECTORS' RESPONSIBILITIES 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 40 to 41 of this annual report.

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.

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. During such reviews, the Executive Committee also considered and assessed 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 role in overseeing over the Group's internal control function by reviewing and evaluating the effectiveness of the internal control systems.

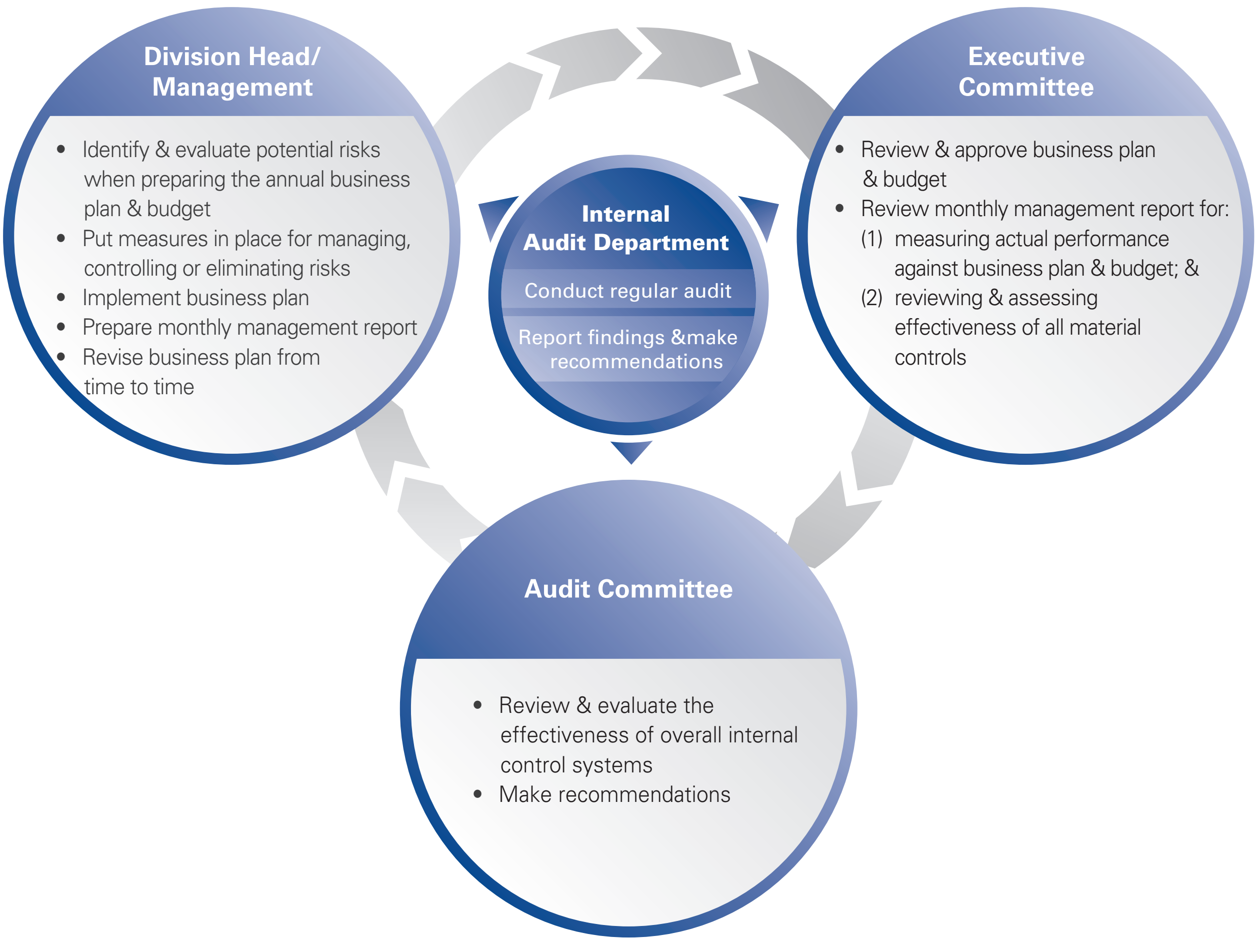
The Company has set up an internal audit department (the "I.A. Department") which assists the Executive Committee and the Audit Committee in discharging their internal control duties. The I.A. Department, which is independent of the operational departments of the Group, is responsible for conducting 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 remain effective in the dynamic and ever-changing business environment. During the year ended 31 December 2012, 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 Chief Executive Director, in which they made representations as to compliance by themselves and their subordinates of key internal control systems for the year 2012. In turn, the Chief Executive 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.

INTERNAL CONTROL *(Continued)*

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 2012.

Internal Control System



Internal Audit Functions

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, 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	900
Non-statutory audit services:	
Review on interim financial report	240
	1,140

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 provide a useful forum for shareholders to exchange views with the Board. The Directors and members of various Board committees will attend the annual general meeting of the Company to answer questions raised by the shareholders of the Company. 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 website (www.hkexnews.hk) and the Company's website, respectively.

The detailed procedures for demanding and conducting a poll will be 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.

SHAREHOLDERS RIGHTS *(Continued)*

Convening Extraordinary General Meeting and putting Forward Proposals at General Meeting

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.

Shareholders may at any time send their enquires and concerns to the Board in writing to the Company's head office and principal place of business in Hong Kong.

Procedures for Proposing a Person for Election as a Director

As regards the procedure for proposing a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the Company's website.

Constitutional Documents

There was no change to the Bye-laws during the financial year ended 31 December 2012. A copy of the latest consolidated version of the Bye-laws is posted on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

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 2012.

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 46 and 22 to the consolidated financial statements, respectively.

RESULTS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 42 to 120 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 2012 (2011: 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 121 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 98 to 99 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 99 to 100 of this annual report.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 46 to 47 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. Chan Chung Chun* (appointed on 20 June 2012)
Mr. Hui Hung, Stephen* (resigned on 23 March 2012)

Non-executive Director
* *Independent Non-executive Director*

In accordance with clause 86(2) of the bye-laws of the Company, Mr. Chan Chung Chun shall retire from office at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

In accordance with clause 87(2) of the bye-laws of the Company, Mr. Chen Zheng, Mr. Jin Guo Ping and Prof. Japhet Sebastian Law shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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 three years commencing on 1 January 2013 unless terminated by at least three months' notice in writing served by either party prior to the expiry of the term, 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 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 and Mr. Chan Chung Chun has entered into an engagement letter with the Company from 20 June 2012 to 31 December 2013 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 scheme as an incentive to the Directors and eligible employees, details of the scheme are set out in the "Share Option Scheme" section and note 39 to the consolidated financial statements.

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

As at 31 December 2012, 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

		Number of shares/underlying shares held in the Company			Approximate percentage of issued share capital of the Company
Name of Director	**Capacity in which interests are held**	**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	6,470,000	215,198,200	14.17%
Mr. Jin Guo Ping	Beneficial owner	–	2,590,000	2,590,000	0.17%
Mr. Leung Shun Sang, Tony	Beneficial owner	30,008,200	6,470,000	36,478,200	2.40%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	1,290,000	12,090,820	0.80%
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 "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 Scheme" section.*

Save as disclosed above, as at 31 December 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 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 Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the 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

During the year ended 31 December 2012, none of the Directors had an interest in a business (other than those businesses where the Director where 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons or corporations, other than the Directors or chief executive 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 Limited ("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 these corporation are deemed to be interested in the shares of the Company which Upper Nice is interested under the SFO.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at 31 December 2012, the Company has not been notified of any other person or corporations (other than the Directors and chief executive 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 SCHEME

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 52,460,000 which represents approximately 3.46% 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.

SHARE OPTION SCHEME *(Continued)*

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

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

Details of movements in the share options under the Scheme during the year ended 31 December 2012 are as follows:

	Number of shares options to subscribe for shares of the Company								
Category or name of grantees	**Balance as at 01.01.2012**	**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 31.12.2012**	**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	–	–	–	(4,890,000)	6,470,000			
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	–	–	–	(4,900,000)	6,470,000			
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	–	–	–	(490,000)	1,290,000			
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)[1]	–	–	–	–	30.10.2007	30.10.2007–29.10.2012	HK$2.75
(resigned on 23 March 2012)	1,290,000	(1,290,000)[1]	–	–	–	–	14.12.2010	14.12.2010–03.08.2013	HK$0.87
	1,780,000	(1,780,000)	–	–	–	–			
	43,120,000	(1,780,000)	–	–	(10,280,000)	31,060,000			
Employees of the Group	9,900,000	(9,900,000)[2]	–	–	–	–	30.10.2007	30.10.2007–29.10.2012	HK$2.75
	24,700,000	(10,150,000)[3]	–	–	–	14,550,000	14.12.2010	14.12.2010–03.08.2013	HK$0.87
	34,600,000	(20,050,000)	–	–	–	14,550,000			
Other participants	4,900,000	–	10,390,000	–	(15,290,000)	–	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	400,000	–	11,440,000	–	(4,990,000)	6,850,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	5,300,000	–	21,830,000	–	(20,280,000)	6,850,000			
	83,020,000	(21,830,000)	21,830,000	–	(30,560,000)	52,460,000			

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 year ended 31 December 2012. According to the Share Option Scheme, such share options will be lapsed on the expiry of the three months period for following the date of cessation as a director of the Company.

2. Such share options were re-classified to the category of "Other Participants" during the year ended 31 December 2012.

3. 3,900,000 shares 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 are re-classified to the category of "Other Participants" during the year ended 31 December 2012.

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$795,462,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers for the continuing operations accounted for approximately 35% of the revenue for the year and the largest customer included therein amounted to approximately 14%. Purchases from the Group's five largest suppliers for the continuing operations accounted for approximately 4% of the cost of sales for the year and the largest supplier included therein amounted to approximately 1%. 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 19 to 31 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, 27 March 2013

INDEPENDENT AUDITOR'S REPORT

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 42 to 120, which comprise the consolidated statement of financial position as at 31 December 2012, 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 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.

INDEPENDENT AUDITOR'S REPORT

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 2012 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, 27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Continuing operations			
Revenue	7	**111,022**	94,677
Cost of sales		**(74,932)**	(69,390)
Gross profit		**36,090**	25,287
Other income	10	**32,389**	14,735
Gain on dissolution of an associate		**–**	2,172
Distribution costs and selling expenses		**(12,644)**	(6,716)
Administrative expenses		**(60,133)**	(58,573)
Change in fair value of investment properties	19	**148,460**	–
Finance costs	11	**(11,353)**	(10,363)
Other expenses and losses	12	**(2,721)**	(3,509)
Share of loss of an associate	22	**–**	(188)
Profit (loss) before tax		**130,088**	(37,155)
Income tax expense	13	**(41,057)**	–
Profit (loss) for the year from continuing operations	14	**89,031**	(37,155)
Discontinued operations	15		
Profit for the year from discontinued operations		**–**	387,146
Profit for the year		**89,031**	349,991
Other comprehensive income (expense):			
Exchange differences arising on translation of foreign operations		**11,268**	23,951
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
		11,268	52,107
Total comprehensive income for the year		**100,299**	402,098

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Profit for the year attributable to:			
Owners of the Company			
– Profit (loss) for the year from continuing operations		**60,463**	(34,635)
– Profit for the year from discontinued operations		**–**	340,815
		60,463	306,180
Non-controlling interests			
– Profit (loss) for the year from continuing operations		**28,568**	(2,520)
– Profit for the year from discontinued operations		**–**	46,331
		28,568	43,811
		89,031	349,991
Total comprehensive income for the year attributable to:			
Owners of the Company		**71,384**	355,657
Non-controlling interests		**28,915**	46,441
		100,299	402,098
		HK cents	*HK cents*
Earnings (loss) per share	*17*		
From continuing and discontinued operations			
Basic		**3.98**	22.69
Diluted		**3.98**	22.68
From continuing operations			
Basic and diluted		**3.98**	(2.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**291,456**	306,878
Investment properties	19	**504,835**	170,605
Prepaid lease payments	20	**5,967**	6,029
Available-for-sale investments	21	**85,018**	85,010
Other receivables and deposits	23	**25,000**	24,691
		912,276	593,213
Current assets			
Programmes	24	**322**	8,922
Productions work in progress	25	**2,769**	1,860
Amounts due from customers for contract work	26	**6,166**	4,898
Trade receivables	27	**15,243**	8,735
Other receivables and deposits	23	**11,691**	10,894
Prepaid lease payments	20	**138**	136
Held-for-trading investments	28	**32,756**	27,396
Structured deposits	29	**–**	988
Bank balances and cash	30	**309,178**	444,976
		378,263	508,805
Current liabilities			
Advances from customers	31	**10,510**	6,709
Amounts due to customers for contract work	26	**1,699**	1,423
Trade payables	32	**2,183**	1,276
Other payables and accruals	33	**119,198**	64,980
Tax liabilities		**5,059**	1,276
Deferred income	35	**1,605**	–
Secured bank borrowings – due within one year	34	**30,000**	24,691
		170,254	100,355
Net current assets		**208,009**	408,450
Total assets less current liabilities		**1,120,285**	1,001,663
Non-current liabilities			
Deferred income	35	**8,214**	–
Deferred tax liabilities	36	**37,579**	–
Secured bank borrowings – due after one year	34	**115,000**	143,210
		160,793	143,210
Net assets		**959,492**	858,453

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
Capital and reserves			
Share capital	37	**15,183**	15,183
Reserves		**889,338**	817,915
Equity attributable to owners of the Company		**904,521**	833,098
Non-controlling interests	38	**54,971**	25,355
Total equity		**959,492**	858,453

The consolidated financial statements on pages 42 to 120 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

Li Shaofeng
DIRECTOR

Chen Zheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 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 2011	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
Profit for the year	–	–	–	–	–	–	–	–	60,463	60,463	28,568	89,031
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	10,921	–	–	10,921	347	11,268
Total comprehensive income for the year	–	–	–	–	–	–	10,921	–	60,463	71,384	28,915	100,299
Sub-total	15,183	75,856	445	245,881	680	40,890	55,489	–	470,058	904,482	54,270	958,752
Lapse of share options granted	–	–	–	–	–	(23,995)	–	–	23,995	–	–	–
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	39	–	39	701	740
At 31 December 2012	15,183	75,856	445	245,881	680	16,895	55,489	39	494,053	904,521	54,971	959,492

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 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 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 interests 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 2010 of approximately HK$4,226,000; (3) 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 HK5,572,000; (4) the difference between the proceed and the carrying amount of the net assets attributable to the disposal of partial interest a PRC subsidiary during the year ended 31 December 2012 amounting to approximately HK$39,000. Items (1), (2) & (3) were released to profit and loss upon the disposal of the subsidiaries in 2011.

(e) The difference arising on dilution of interest in a subsidiary of approximately HK$5,572,000 in 2011 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 in 2011. The amount is recognised in special reserve in 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before tax		
– continuing operations	**130,088**	(37,155)
– discontinued operations	**–**	410,508
Adjustments for:		
Depreciation of property, plant and equipment	**19,461**	20,453
Finance costs	**11,353**	10,675
Allowance for programmes	**8,606**	1,264
Changes in fair value of held-for-trading investments	**2,020**	3,509
Allowance for productions work in progress	**984**	4,556
Loss on disposal of property, plant and equipment	**701**	486
Written off of bad debts	**489**	1,732
Amortisation of prepaid lease payments	**136**	132
Share of loss of an associate	**–**	188
Gain on disposal of discontinued operations	**–**	(277,329)
Gain on dissolution of an associate	**–**	(2,172)
Change in fair value of investment properties	**(148,460)**	–
Dividend income from available-for-sale investments	**(10,834)**	(8,039)
Interest income	**(10,122)**	(4,573)
Government grants related to assets	**(2,648)**	–
Operating cashflow before movements in working capital	**1,774**	124,235
Increase in programmes	**–**	(28,909)
(Increase) decrease in productions work in progress	**(1,724)**	7,430
Decrease (increase) in amounts due from customers for contract work	**1,173**	(1,906)
Increase in trade receivables	**(6,997)**	(33,757)
Increase in other receivables and deposits	**(669)**	(5,933)
Increase in held-for-trading investments	**(7,380)**	(28,339)
Increase (decrease) in advances from customers	**3,730**	(6,360)
Increase in amounts due to customers for contract work	**276**	4,243
Increase (decrease) in trade payables	**907**	(116)
(Decrease) increase in other payables and accruals	**(5,391)**	1,520
Cash (used in) generated from operations	**(14,301)**	32,108
Income tax paid	**(219)**	(12,394)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(14,520)**	19,714

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Purchase of structured deposits		**(426,250)**	(988)
Redemption of structured deposits		**427,250**	43,202
Government grants received related to assets		**12,467**	–
Dividend received		**10,834**	8,039
Interest received		**10,122**	4,573
Proceeds from disposal of property, plant and equipment		**463**	–
Additions in investment properties		**(106,768)**	(70,499)
Purchase of property, plant and equipment		**(17,856)**	(31,729)
Proceeds from disposal of subsidiaries constituting discontinued operations	15	**–**	275,831
Proceeds from dissolution of an associate		**–**	22,242
Withdrawal of pledged bank deposits		**–**	10,024
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(89,738)**	260,695
FINANCING ACTIVITIES			
Proceeds from the disposal of partial interest in a subsidiary		**740**	–
Repayment of bank loans		**(24,691)**	(47,582)
Interest paid		**(11,353)**	(10,675)
Dividend paid to non-controlling interests		**–**	(138,583)
Repayment of amount due to an associate		**–**	(22,678)
Proceeds from issue of the Company's shares		**–**	78,050
New bank loans raised		**–**	35,008
Proceeds from exercise of share options of a subsidiary		**–**	26,192
NET CASH USED IN FINANCING ACTIVITIES		**(35,304)**	(80,268)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(139,562)**	200,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**444,976**	235,653
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**3,764**	9,182
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, COMPRISING BANK BALANCES AND CASH		**309,178**	444,976

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

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 of 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 operations. Accordingly, these operations are classified as discontinued operations during the year ended 31 December 2011 (see Note 15 for details).

The principal activities of the remaining Group are computer graphic ("CG") creation and production, films and television programme production, CG training courses and property rental income. The principal activities and other particulars of its principal subsidiaries as at 31 December 2012 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 United States dollar ("USD").

With the disposal of GDC Tech Group and GDC DCN Group on 6 September 2011, the Company reassessed its functional currency. Currently, the Group's principal activities are CG creation and production, films and television programme production, CG training courses and property rental income which are mainly located in the PRC. As a result, the directors of the Company (the "Directors") determined that the functional currency of the Company has been changed from USD to Renminbi ("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 Effects of Changes in Foreign Exchange Rates".

The consolidated financial statements are presented in Hong Kong dollars ("HKD") 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 has applied, for the first time, a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the financial year beginning on 1 January 2012.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted. The Group recognises deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use and hence only the enterprise income taxes are taken into account.

The application of other amendments to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

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

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 HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are 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.

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

HKFRS 9 Financial Instruments *(Continued)*

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liabilities 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. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as 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.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2012, 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 2012) 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* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided that all of these five standards are applied at the same time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

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

New and revised standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

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 and that the application of these standards will have no significant impact on amounts reported in the consolidated financial statements.

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 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss".

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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income *(Continued)*

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 properties and 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 television series or movies is recognised when they are exhibited.

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 and exhibition agreements (collectively referred to as "VPF Arrangement") 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for CG creation and production *(Continued)*

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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in supply of goods and services, or for administrative purposes 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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. For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Programmes and productions work in progress

Programmes and 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. Net realisable value represents the estimated selling price for programmes and production work in progress less all estimated cost of completion and costs necessary to make the sale. Production costs are classified to television series or movies under programmes upon completion.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 FVTPL

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at FVTPL (Continued)

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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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; or
- disappearance of an active market for that financial asset because of financial difficulties.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments 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.

Financial liabilities

Financial liabilities (including trade payables, other payables and secured bank borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

4. CRITICAL JUDGMENT AND 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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred tax on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment properties and concluded that the Group's investment properties are depreciable and are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties are recovered entirely through sale is rebutted. As a result, the Group has recognised the deferred taxes on changes of fair value of investment properties, taking into account the PRC enterprise income tax effect.

Classification of Building

As at 31 December 2012 and 2011, the Group has leased part of it building for rental purpose, and the remaining part are held for office premises. The management of the Group considers the entire building cannot be sold separately and the self-occupied portion of the property is not an insignificant portion. Therefore, the Directors have determined the building is classified as property, plant and equipment and accounted for cost at less accumulated depreciation.

Key source of estimation uncertainty

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

4. CRITICAL JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimation of fair value of investment properties

The Group's completed investment properties as at 31 December 2012 are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuer adopted the income capitalisation approach by taking into account the rental income of the property derived from the existing leases and the estimated future lease income capitalised at a market yield rate expected for similar type of property over the remaining period of the property leasing right granted by Pearl River Film Production. The expense on the land lease for the investment property was also taken into consideration. In relying on the valuation report, the management has exercised their judgment and are satisfied that the method of valuation is reflective of the current market conditions. Should there be changes in assumptions due to market conditions, the fair value of the completed investment properties will change in future. The carrying amount of investment properties whereby fair value can be measured reliably as at 31 December 2012 is HK$449,250,000.

Estimation of allowance on programmes and productions work in progress

As at 31 December 2012, the carrying amount of the Group's programmes and productions work in progress is HK$322,000 and HK$2,769,000 respectively (2011: HK$8,922,000 and HK$1,860,000). The management of the Group reviews the net realisable value of these programmes and productions work in progress at the end of the reporting period on a project by project basis at the end of the reporting period and makes allowances for programmes and productions work in progress whenever estimated selling price less the estimated cost of completion and the estimated cost necessary to make the sale is lower than the cost. In case there are changes in the estimation of the selling price and estimated cost, additional allowances might be required.

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 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.

When there is an indication that the asset has suffered an impairment loss, the Group estimates the recoverable amount of the cash generating unit ("CGU") in which these property, plant and equipment are allocated to. The recoverable amount is the higher of the fair value less cost to sale and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant estimates relating to the amounts of revenue and operating costs. Changes in these estimates could have a significant impact on the value in use of the assets and could result in impairment loss in profit and loss. As at 31 December 2012, the carrying amount of property, plant and equipment is HK$291,456,000 (2011: HK$306,878,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

5. CAPITAL RISK MANAGEMENT *(Continued)*

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in Note 34, 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, 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 2012 and 2011 were as follows:

	2012	2011
Total debt [(1)] (HK$'000)	**145,000**	167,901
Equity [(2)] (HK$'000)	**904,521**	833,098
Total debt to equity percentage	**16%**	20%

The Directors consider that the Group maintains a healthy capital ratio as at 31 December 2012 and 2011 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 attributable to owners of the company.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012 **HK$'000**	2011 *HK$'000*
Financial assets		
Available-for-sale investments	**85,018**	85,010
Financial assets at FVTPL		
Held-for-trading investments	**32,756**	27,396
Structured deposits designed as at FVTPL	**–**	988
Loans and receivables (including cash and cash equivalents)	**328,727**	458,972
Financial liabilities		
Amortised cost	**253,046**	224,467

6. FINANCIAL INSTRUMENTS *(Continued)*

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, bank balances, trade payables, other payables, and secured bank borrowings. Details of the financial instruments are disclosed in the 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 RMB, Euro dollars and USD and incurs costs mainly in RMB and HKD which are primarily transacted using functional currencies of the respective group entities after the disposal of GDC Tech Group and GDC DCN Group in 2011. 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 2012 and 2011, the Group has no significant foreign currency exposure and therefore, no sensitivity analysis is presented.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk primarily due to the fluctuation of the market interest rate on variable-rate secured bank borrowings as disclosed in Note 34, which carry interest at the People's Bank of China Renminbi Lending Rate.

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 borrowings 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 (2011: 100 basis points) increase or decrease are used which represents management's assessment of the reasonably possible change in interest rate. If interest rates had been 100 basis points (2011: 100 basis 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$1,088,000 (2011: HK$1,259,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

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 and unlisted available-for-sale investment which are measured at cost as the fair value cannot be measured reliably. 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 listed equity price risk at the end of the reporting period. A 5% (2011: 5%) higher/lower are used which represents management's assessment of the reasonably possible change in equity price.

If the prices of the respective listed equity instruments had been 5% (2011: 5%) higher/lower, post-tax profit for the year ended 31 December 2012 would increase/decrease by approximately HK$1,368,000 (2011: HK$1,144,000) as a result of the changes in fair value of investments in listed equity securities.

Credit risk

As at 31 December 2012 and 2011, 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, 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 2012, respectively, which accounted for approximately 14% (2011: 70%) and 71% (2011: 30%) of the total trade receivables.

The Group has concentration of credit risk by counterparty as approximately 48%% (2011: 23%) and approximately 68% (2011: 70%) of the total trade receivables was due from the Group's one customer and five customers, respectively, which are major companies in the CG creation and production segment. The customers are leading film distributor and 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)*

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 HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows as at 31.12.2012 HK$'000	Carrying amount at 31.12.2012 HK$'000
2012						
Non-derivative financial liabilities						
Trade payables	–	885	1,298	–	2,183	2,183
Other payables	–	406	105,457	–	105,863	105,863
Secured bank borrowings						
– variable rate	7.05	7,632	23,713	137,936	169,281	145,000
		8,923	130,468	137,936	277,327	253,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

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	3 months to 1 year	1 – 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*
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	6.22	6,269	19,397	174,599	200,265	167,901
		8,877	72,758	175,196	256,831	224,467

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 other than available-for-sale investments recorded at cost, the carrying amounts of financial assets and financial liabilities recorded at amortised cost 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).

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Held-for-trading investments	**32,756**	**–**	**–**	**32,756**

	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

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

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For The Year Ended 31 December 2012

7. REVENUE

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

	2012	2011
	HK$'000	*HK$'000*
Revenue from contracts for CG creation and production	**59,819**	53,517
Rental income	**33,395**	23,608
CG training fee	**17,808**	17,552
	111,022	94,677

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

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 for the year ended 31 December 2011. 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 revenue and results

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

For the year ended 31 December 2012

Continuing operations

	CG creation and production *HK$'000*	**CG training** *HK$'000*	**Cultural park** *HK$'000*	**Consolidated** *HK$'000*
Revenue	**91,908**	**17,808**	**1,306**	**111,022**
Segment result	**1,876**	**(38)**	**135,346**	**137,184**
Unallocated income				**10,926**
Unallocated expenses				**(18,022)**
Profit before tax from continuing operations				**130,088**

For the year ended 31 December 2011

Continuing operations

	CG creation and production *HK$'000*	CG training *HK$'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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by or loss incurred from each segment without allocation of investment income, central administration costs, share of loss of an associate and gain on dissolution of an associate 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 material inter-segment sales in the current and prior years.

Segment assets and liabilities

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

At 31 December 2012

	CG creation and production HK$'000	CG training HK$'000	Cultural park HK$'000	Consolidated HK$'000
Assets				
Segment assets	608,006	18,375	536,522	1,162,903
Unallocated assets				
– Available-for-sale investments				85,018
– Held-for-trading investments				32,756
– Bank balances and cash				7,992
– Others				1,870
Consolidated total assets				1,290,539
Liabilities				
Segment liabilities	202,184	8,568	117,578	328,330
Unallocated liabilities				2,717
Consolidated total liabilities				331,047

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2011

	CG creation and production *HK$'000*	CG training *HK$'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

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

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

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

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8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2012

Continuing operations

	Amounts included in the measure of segment profit or loss or segment assets					
	CG creation and production HK$'000	CG training HK$'000	Cultural park HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated total HK$'000
Additions to non-current assets *(Note)*	3,001	788	179,819	183,608	67	183,675
Change in fair value of investment properties	–	–	148,460	148,460	–	148,460
Depreciation of property, plant and equipment	16,616	1,844	316	18,776	685	19,461
Allowance for programmes	8,606	–	–	8,606	–	8,606
Allowance for productions work in progress	984	–	–	984	–	984
Loss (gain) on disposal of property, plant and equipment	721	–	–	721	(20)	701
Written off of bad debts	489	–	–	489	–	489
Amortisation of prepaid lease payments	136	–	–	136	–	136
Interest income	10,031	61	29	10,121	1	10,122
Government grants	11,080	25	–	11,105	–	11,105

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$'000	CG training HK$'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 programmes	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
Government grants	2,275	822	–	3,097	–	3,097

Note: Non-current assets exclude available-for-sale investments, and other receivables and deposits.

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)*	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**73,159**	41,571	**800,247**	480,883
Denmark	**22,847**	29,512	**–**	–
USA	**5,565**	19,580	**–**	–
Hong Kong	**–**	–	**2,011**	2,629
France	**3,476**	38	**–**	–
Italy	**3,319**	1,993	**–**	–
Other regions	**2,656**	1,983	**–**	–
	111,022	94,677	**802,258**	483,512

Note: Non-current assets exclude available-for-sale investments, and other receivables and deposits.

Information about major customer

Revenue from one customer contributing over 10% of the total revenue of the Group from continuing operations for the year ended 31 December 2012 is approximately HK$15,144,000 (2011: HK$14,625,000) under CG creation and production segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

9. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

From continuing and discontinued operations

(a) Directors' and Chief Executive Officer's emoluments

The emoluments paid or payable to each of the 8 (2011: 7) Directors and the Chief Executive Officer are as follows:

For the year ended 31 December 2012

	Fees	Bonus	Salaries and other benefits	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:					
Mr. Li Shaofeng	–	–	–	–	–
Mr. Chen Zheng	–	–	3,600	14	3,614
Mr. Jin Guo Ping	–	–	1,200	14	1,214
	–	–	4,800	28	4,828
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 (resigned on 23 March 2012)	54	–	–	–	54
Prof. Japhet Sebastian Law	240	–	–	–	240
Mr. Chan Chung Chun (appointed on 20 June 2012)	127	–	–	–	127
	661	–	–	–	661
	851	–	4,800	28	5,679

9. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

From continuing and discontinued operations *(Continued)*

(a) Directors' and Chief Executive Officer's emoluments (Continued)

For the year ended 31 December 2011

	Fees *HK$'000*	Bonus *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive Directors:					
Mr. Li Shaofeng	–	3,500	–	–	3,500
Mr. Chen Zheng	–	3,000	3,000	12	6,012
Mr. Jin Guo Ping	–	100	1,200	12	1,312
	–	6,600	4,200	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	6,600	4,200	24	11,734

Note: The bonus was determined based on the business performance of the Group for the year ended 31 December 2011.

Mr. Chen Zheng is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for service rendered by him as Chief Executive Officer.

Neither the Chief Executive Officer nor any of the Directors waived any emoluments in the year ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended 31 December 2012

9. DIRECTORS', CHIEF EXECUTIVE OFFICER'S 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 (2011: two) are the Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2011: three) individuals are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**5,215**	6,194
Retirement benefits schemes contributions	**28**	69
	5,243	6,263

The emoluments of the above three (2011: three) individuals are within the following bands:

	2012 Number of employees	2011 Number of employees
HK$1,000,000 or below	**1**	–
HK$1,000,001 – HK$1,500,000	**–**	1
HK$2,000,001 – HK$2,500,000	**2**	1
HK$2,500,001 – HK$3,000,000	**–**	1
	3	3

10. OTHER INCOME

	2012 **HK$'000**	2011 HK$'000
Continuing operations		
Dividend income from available-for-sale investments	**10,834**	8,039
Government grants *(Note)*	**11,105**	3,097
Bank interest income	**10,122**	1,974
Others	**328**	1,625
	32,389	14,735

10. OTHER INCOME *(Continued)*

Note: During the year ended 31 December 2012, government grants mainly represent subsidies of HK$8,457,000 (2011: HK$3,097,000) received from the relevant PRC authorities in PRC, of which an amount of HK$3,704,000 (2011: Nil) is intended to compensate for the staff costs incurred by the Group in CG production and exhibition of motion pictures and the remaining amount of HK$4,753,000 (2011: HK$3,097,000) is an incentive payment to the Group whereby no future related cost is required or expected to be made.

In addition, an amount of HK$2,648,000 (2011: Nil) is related to government grants on computer equipment acquisition which are amortised to profit or loss on a straight-line basis over the estimated useful life of the acquired assets. Details are set out in Note 35.

11. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Interest on bank borrowings wholly repayable within five years	**11,353**	10,363

12. OTHER EXPENSES AND LOSSES

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Changes in fair value of held-for-trading investments	**2,020**	3,509
Loss on disposal of property, plant and equipment	**701**	–
	2,721	3,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

13. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Continuing operations		
The income tax expense comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**3,723**	–
Underprovision in prior years	**219**	–
	3,942	–
Deferred tax *(Note 36)*	**37,115**	–
	41,057	–

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.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), the PRC subsidiaries are entitled to a tax concession as a foreign investment enterprise, whereby their applicable tax rate will progressively increase to 25% over a five-year transitional period from 1 January 2008 to 31 December 2012. 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. According to the Circular of State Council for the Enterprise income tax policies on the advanced technology service enterprise ("ATSE") (Caishui [2010] No.65), one of the PRC subsidiaries is able to enjoy a preferential tax rate at 15% from 1 July 2010 to 31 December 2013 as it is qualified as ATSE. For the year ended 31 December 2012, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (2011: 15% to 25%).

13. INCOME TAX EXPENSE *(Continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Profit (loss) before tax from continuing operations	**130,088**	(37,155)
Tax calculated at PRC EIT rate of 25% (2011: 25%)	**32,522**	(9,289)
Tax effect of income not taxable for tax purposes	**(2,274)**	(2,021)
Tax effect of expenses not deductible for tax purpose	**4,508**	1,691
Underprovision in respect of prior years	**219**	–
Tax effect of tax losses not recognised	**8,378**	10,165
Utilisation of tax losses previously not recognised	**(1,351)**	(1,031)
Income tax on concessionary rate	**(1,948)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,003**	485
Income tax expense for the year from continuing operations	**41,057**	–

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:

	2012	2011
	HK$'000	*HK$'000*
Estimated tax losses that may be carried forward	**115,971**	87,863

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 earnings of the PRC subsidiaries amounting to approximately HK$3,051,000 as at 31 December 2012 (2011: HK$358,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

14. PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

	2012 HK$'000	2011 HK$'000
Profit (loss) for the year from continuing operations has been arrived at after charging/(crediting):		
Staff costs, including directors' emoluments *(Note 9(a))*:		
– Salaries, wages and other benefits	**92,787**	82,323
– Retirement benefit scheme contributions	**2,173**	2,115
Total staff costs	**94,960**	84,438
Less: amounts included in contract costs	**(21,247)**	(27,491)
amounts included in productions work in progress	**(2,100)**	(234)
	71,613	56,713
Allowance for programmes (included in cost of sales)	**8,606**	1,264
Allowance for productions work in progress (included in cost of sales)	**984**	4,556
Written off of bad debts	**489**	–
Amortisation of prepaid lease payments	**136**	132
Auditor's remuneration	**1,140**	1,480
Contract costs recognised as an expense:		
Staff costs	**28,936**	25,367
Others	**25,323**	26,112
	54,259	51,479
Depreciation of property, plant and equipment	**21,961**	24,008
Less: amounts included in contract costs	**(2,365)**	(5,985)
amounts included in productions work in progress	**(135)**	(63)
	19,461	17,960
Exchange (gain) loss, net	**(622)**	2,195
Loss on disposal of property, plant and equipment	**701**	161
Minimum lease payments under operating leases for land and buildings	**5,481**	5,034
Less: amounts included in contract costs	**(649)**	(1,942)
amounts included in productions work in progress	**(51)**	(13)
	4,781	3,079

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 then retained approximately 11.93% of the issued share capital of GDC Tech (see Note 21) as of 31 December 2011 retained 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 *HK$'000*
Profit from discontinued operations	109,817
Gain on disposal of discontinued operations	277,329
	387,146

The results of the discontinued operations for the period from 1 January 2011 to 6 September 2011, which had 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 *HK$'000*
Revenue	420,649
Cost of sales	(217,128)
Gross profit	203,521
Other income and gains	3,122
Distribution costs and selling expenses	(19,608)
Administrative expenses	(46,320)
Finance costs	(312)
Research and development costs	(7,224)
Profit before tax	133,179
Income tax expense	(23,362)
Profit from discontinued operations	109,817

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

	1.1.2011 to 6.9.2011 *HK$'000*
Staff costs, including directors' emoluments *(Note 9(a))*:	
– Salaries, wages and other benefits	31,489
– Retirement benefit scheme contributions	1,115
Total staff costs	32,604
Written off of bad debts	1,732
Auditor's remuneration	299
Cost of inventories recognised as an expense	159,322
Depreciation of property, plant and equipment	2,493
Loss on disposal of property, plant and equipment	325
Minimum lease payments under operating leases for land and buildings	4,518
Exchange gain, net	(637)
Bank interest income	(2,599)

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

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15. DISCONTINUED OPERATIONS *(Continued)*

Note a: The fair value of the remaining 11.93% equity interest in GDC Tech is determined by using the share price sold to the 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 been settled and included in other payable at 31 December 2011. The compensation payable was settled in full in 2012.

Cash flows from discontinued operations:

	HK$'000
Net cash from operating activities	61,609
Net cash from investing activities	125,522
Net cash used in financing activities	(282,356)
Effect of foreign exchange rate changes	3,440
Net cash flows	(91,785)

16. DIVIDENDS

No dividend is paid, declared or proposed during the year ended 31 December 2012 and 2011, and no dividend has been proposed since the end of the reporting period (2011: 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:

	2012 HK$'000	2011 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**60,463**	306,180
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	**60,463**	306,145

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,518,256**	1,349,631

The computation of diluted earnings per share for the year 2012 does not assume the exercises 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 2012.

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 year ended 31 December 2011 because their assumed exercise is antidilutive in calculating loss per share from continuing operations.

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17. 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:

	2012	2011
	HK$'000	*HK$'000*
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share from continuing operations (Profit (loss) for the year from continuing operations attributable to the owners of the Company)	**60,463**	(34,635)

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	**1,518,256**	1,349,631

The computation of diluted earnings per share for the year 2012 does not assume the exercises of the Company's share options as the exercise prices of the share options were higher than the average market price of the share for 2012.

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 year ended 31 December 2011 because their assumed exercise would result in decrease in loss per share from continuing operations.

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

From discontinued operations

The calculation of the basic and diluted earnings per share for the year 2011 from discontinued operations attributable to owners of the Company is based on the following data:

	2012	2011
	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
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

Basic and diluted earnings per share for the discontinued operations are of HK25.25 cents and HK25.25 cents per share for the year 2011, based on the profit for the year 2011 from discontinued operations of HK$340,815,000 and the adjusted profit of HK$340,780,000, respectively and the denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations for the year ended 31 December 2011.

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18. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improvements	Plant and machinery	Equipment, furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2011	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
Exchange realignment	2,523	368	920	103	633	36	4,583
Additions	–	872	–	999	2,266	–	4,137
Disposals	–	(2,626)	–	(428)	(2,983)	(313)	(6,350)
At 31 December 2012	204,376	31,406	74,499	9,625	52,829	5,308	378,043
DEPRECIATION AND AMORTISATION							
At 1 January 2011	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
Exchange realignment	113	82	206	59	546	11	1,017
Provided for the year	4,181	3,050	7,621	1,794	4,534	781	21,961
Eliminated on disposals	–	(1,703)	–	(243)	(2,946)	(294)	(5,186)
At 31 December 2012	9,172	6,993	16,717	5,163	46,498	2,044	86,587
CARRYING VALUES							
At 31 December 2012	195,204	24,413	57,782	4,462	6,331	3,264	291,456
At 31 December 2011	196,975	27,228	64,689	5,398	8,549	4,039	306,878

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

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

Building	50 years
Leasehold improvements	2 to 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 2012 is situated on land in the PRC with a lease term of 50 years. The Group leased part of its building for rental purpose for the year ended 31 December 2012 and 2011.

As at 31 December 2012 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 34).

During the year ended 31 December 2011 there was a segment loss of HK$14,234,000 relating to the CG creation and production operating segment. As such the management of the Group performed an impairment assessment on this CGU. 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%.

As at 31 December 2012, the CG creation and production operating segment recorded a profit of HK$1,876,000. During the year, the Directors conducted a review of the Group's property, plant and equipment and determined that no impairment indicators existed at 31 December 2012.

19. INVESTMENT PROPERTIES

	Completed properties	**Properties interest under construction**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2011	–	95,395	95,395
Additions	–	70,499	70,499
Exchange realignment	–	4,711	4,711
At 31 December 2011	–	170,605	170,605
Additions	–	179,538	179,538
Transfer	298,934	(298,934)	–
Exchange realignment	1,856	4,376	6,232
Increase in fair value recognised in the consolidated statement of comprehensive income	148,460	–	148,460
At 31 December 2012	449,250	55,585	504,835

19. INVESTMENT PROPERTIES *(Continued)*

The investment properties represent the properties interest held under an operating lease on a property project 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 (formerly known as 廣東時尚置業有限公司) ("Guangdong Cultural Park") a subsidiary of the Company and 珠江電影製片有限公司 ("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, the whole Pearl River Film Cultural Park project will have a commercial area, a cultural entertainment area and a film production and development area, which will be held for investment properties purpose.

The properties interests under construction represent Phase II of the Pearl River Film Cultural Park which is to be developed as an entertainment and film production and development area and are stated at cost as the fair value cannot be reliably measured in 2012.

The completed properties represent Phase I of the Pearl River Film Cultural Park which is a shopping mall and are stated at the fair value as at 31 December 2012. The fair value of the completed properties at 31 December 2012 has been arrived at on the basis of a valuation carried out on that day by ROMA Appraisals Limited ("ROMA"), independent qualified professional valuers not connected with the Group. The valuation took into account the rental income of the property derived from the existing leases and the estimated future lease income capitalised at a market yield rate expected for similar type of property over the remaining period of the property leasing right granted by Pearl River Film Production. The expense on the land lease for the investment property was also taken into consideration.

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:

	2012	2011
	HK$'000	*HK$'000*
Current	**138**	136
Non-current	**5,967**	6,029
	6,105	6,165

As at 31 December 2012 and 2011, all of the Group's prepaid lease payments have been pledged to secure banking facilities granted to the Group (see Note 34).

21. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2011
	HK$'000	*HK$'000*
11.52% equity interest in GDC Tech (2011: 11.93%)	**84,393**	84,393
5% equity interest in a private entity established in the PRC	**625**	617
	85,018	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 significant that the Directors are of opinion that the fair value cannot be measured reliably.

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For The Year Ended 31 December 2012

22. INTEREST IN AN ASSOCIATE

	2011
	HK$'000
Cost of investment in an unlisted associate *(Note)*	21,806
Share of post-acquisition exchange difference recognised in other comprehensive income	2,992
Share of post-acquisition losses	(1,736)
	23,062
Dissolution of an associate	(23,062)
	–
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

Note: The Group held 49% of registered capital of 中影首鋼環球數碼數字影院建設（北京）有限公司 and classified it as an associate of the Group. The associate was dissolved on 28 December 2011.

23. OTHER RECEIVABLES AND DEPOSITS

	2012	2011
	HK$'000	*HK$'000*
Deposits *(Note)*	**25,878**	25,430
Others	**10,813**	10,155
	36,691	35,585
Analysed for reporting purposes as:		
Current	**11,691**	10,894
Non-current	**25,000**	24,691
	36,691	35,585

Note: Deposits included deposit paid by Guangdong Cultural Park to Pearl River Film Production of RMB20,000,000 (equivalent to HK$25,000,000) for the development of the Pearl River Film Cultural Park in 2010. The deposit is refundable upon the completion of the entire project.

24. PROGRAMMES

	2012	2011
	HK$'000	*HK$'000*
Completed television series, net of allowance of approximately HK$10,006,000 (2011: HK$1,295,000)	**322**	8,922

Allowance was made on carrying amount of programmes as the estimated selling price less the estimated cost of completion and the estimated cost necessary to make the sale is lower than the cost incurred.

25. PRODUCTIONS WORK IN PROGRESS

	2012	2011
	HK$'000	*HK$'000*
Television series, net of allowance of approximately HK$2,457,000 (2011: HK$1,442,000)	–	468
Movies, net of allowance of approximately HK$3,266,000 (2011: HK$3,226,000)	**2,769**	1,392
	2,769	1,860

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For The Year Ended 31 December 2012

25. PRODUCTIONS WORK IN PROGRESS *(Continued)*

During the year, the Group transferred approximately HK$1,712,000 (2011: HK$10,124,000) of productions work in progress to programmes when the projects were completed. Allowance of approximately HK$5,723,000 (2011: HK$4,668,000) was made on productions work in progress as the management considers 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:

	2012	2011
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses	**24,121**	43,042
Less: progress billings	**(19,654)**	(39,567)
	4,467	3,475
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**6,166**	4,898
Amounts due to customers for contract work	**(1,699)**	(1,423)
	4,467	3,475

27. TRADE RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**15,243**	8,735

Except for rental income receivable from tenants, which is due for settlement upon issue of invoice, the Group allows different credit periods to its trade customers ranging from 30 days to 120 days, depending on the type of products sold or services provided.

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27. TRADE RECEIVABLES *(Continued)*

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:

	2012	2011
	HK$'000	*HK$'000*
Within three months	**15,186**	8,580
Three to six months	**–**	99
Over six months	**57**	56
	15,243	8,735

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$57,000 (2011: HK$56,000) 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:

	2012	2011
	HK$'000	*HK$'000*
Six to nine months	**–**	32
Over one year	**57**	24
Total	**57**	56

28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2012 and 2011 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

29. STRUCTURED DEPOSITS

There is no structured deposit as at 31 December 2012. The structured deposits as at 31 December 2011 were issued by banks in the PRC, with interest carried at average interest rate of 5.2% per annum, depending on the market prices of financial instruments, including listed shares and debentures payable daily. The Group had the right to redeem the structured deposits at any time with one day notice. The structured deposits were designated at FVTPL on initial recognition as they contained non-closely related embedded derivative. The Directors considered the fair values of the structured deposits, which were based on the prices the counterparty banks would pay to redeem at 31 December 2011, approximated to their carrying values at 31 December 2011.

30. BANK BALANCES AND CASH

As at 31 December 2012, bank balances (including fixed deposits) carries interest at market rates which range from 0.01% to 2.85% per annum (2011: 0.01% to 6% per annum).

31. ADVANCES FROM CUSTOMERS

	2012	2011
	HK$'000	*HK$'000*
Receipt in advance from students	**5,448**	5,081
Sales deposits and advances from customers	**5,062**	1,628
	10,510	6,709

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:

	2012	2011
	HK$'000	*HK$'000*
Within three months	**885**	666
Three to twelve months	**6**	13
Over one year	**1,292**	597
	2,183	1,276

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

	2012	2011
	HK$'000	*HK$'000*
Construction payable	**86,605**	27,554
Accruals	**12,059**	9,690
Other tax payables	**1,276**	170
Rental deposits from tenants	**9,136**	4,487
Others	**10,122**	23,079
	119,198	64,980

34. SECURED BANK BORROWINGS

	2012	2011
	HK$'000	*HK$'000*
Secured variable-rate bank borrowings	**145,000**	167,901
Carrying amount repayable:		
Within one year	**30,000**	24,691
More than one year, but not exceeding two years	**35,000**	29,630
More than two years, but not exceeding three years	**45,000**	34,568
More than three years, but not exceeding four years	**35,000**	44,444
More than four years, but not exceeding five years	**–**	34,568
	145,000	167,901
Less: Amounts due within one year shown under current liabilities	**(30,000)**	(24,691)
Amounts due after one year	**115,000**	143,210

As at 31 December 2012 and 2011, the variable-rate bank borrowings for financing the construction cost of the building in the PRC is denominated in RMB, 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 borrowings are at 7.05% (2011: 6.22%) per annum. Interest is repriced every year.

As at 31 December 2012 and 2011, the Group did not have unutilised banking facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. DEFERRED INCOME

	2012	2011
	HK$'000	*HK$'000*
Deferred income related to government grants:		
Current portion	**1,605**	–
Non-current portion	**8,214**	–
	9,819	–

In 2012, the Group received government subsidies of HK$12,467,000 for the acquisition of the computer equipment for CG production development in the PRC. The amount has been treated as deferred income when received and is transferred to income over the useful lives of the relevant assets, which is 3 to 5 years. This policy has resulted in a credit to income of HK$2,648,000 (2011: Nil) in the current period. As at 31 December 2012, an amount of HK$9,819,000 (2011: Nil) remains to be amortised. The current portion of HK$1,605,000 (2011: Nil) represented the grants to be amortised to profit or loss next year.

36. DEFERRED TAX LIABILITIES

At the end of the reporting period, the deferred tax liabilities recognised and movements thereon during the current year:

	Fair value gain on investment properties
	HK$'000
At 1 January 2011 and 31 December 2011	
Charge to the statement of comprehensive income for the year	37,115
Exchange differences	464
At 31 December 2012	37,579

37. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 2012	2,400,000,000	24,000,000
Issued and fully paid		
At 1 January 2011	1,295,255,540	12,952,555
Shares issued	223,000,000	2,230,000
At 31 December 2011 and 2012	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.

38. NON-CONTROLLING INTERESTS

	Share of share options reserve of a subsidiary HK$'000	Share of other net assets of subsidiaries HK$'000	Total HK$'000
At 1 January 2011	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
Share of profit for the year	–	28,568	28,568
Share of exchange differences arising on translation of foreign operations	–	347	347
Disposal of partial interest in a subsidiary	–	701	701
At 31 December 2012	–	54,971	54,971

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39. 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.

During the years ended 31 December 2012 and 2011, no share options were granted under the Scheme to the Directors and employees. As at 31 December 2012, 52,460,000 options (2011: 83,020,000 options) were exercisable.

The following table sets out the movements in the Company's share options during the year ended 31 December 2012:

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	Balance as at 1.1.2012	Transferred to other category during the year *(Note)*	Transferred from other category during the year *(Note)*	Lapsed during the year	Balance as at 31.12.2012
Directors	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	10,770,000	(490,000)	–	(10,280,000)	–
	14.12.2010	14.12.2011 – 03.08.2013	HK$0.87	32,350,000	(1,290,000)	–	–	31,060,000
Employees	22.03.2007	22.03.2007 – 21.03.2011	HK$1.07	–	–	–	–	–
	04.04.2007	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	14.12.2011 – 03.08.2013	HK$0.87	24,700,000	(10,150,000)	–	–	14,550,000
Other participants	22.03.2007	22.03.2007 – 21.03.2011	HK$1.07	–	–	–	–	–
	04.04.2007	04.04.2007 – 03.04.2011	HK$1.52	–	–	–	–	–
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	4,900,000	–	10,390,000	(15,290,000)	–
	14.12.2010	14.12.2011 – 03.08.2013	HK$0.87	400,000	–	11,440,000	(4,990,000)	6,850,000
Totals				83,020,000	(21,830,000)	21,830,000	(30,560,000)	52,460,000

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39. 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 2011:

				Number of share options				
Category of grantees	**Date of grant**	**Exercise period**	**Exercise price per share**	**Balance as at 1.1.2011**	**Transferred to other category during the year** *(Note)*	**Transferred from other category during the year** *(Note)*	**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	14.12.2011 – 03.08.2013	HK$0.87	32,350,000	–	–	–	32,350,000
Employees	22.03.2007	22.03.2007 – 21.03.2011	HK$1.07	–	–	–	–	–
	04.04.2007	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	14.12.2011 – 03.08.2013	HK$0.87	25,900,000	(1,200,000)	–	–	24,700,000
Other participants	22.03.2007	22.03.2007 – 21.03.2011	HK$1.07	–	–	–	–	–
	04.04.2007	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	14.12.2011 – 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

Note: The Directors and employees that have resigned from their positions are regarded as other participants of the Company and the outstanding share options entitled to them will be transferred to other category.

Share option scheme of GDC Tech prior to the Disposal

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

During the year ended 31 December 2011, no share options were granted under the GDC Technology Share Option Scheme to the Directors and employees.

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39. SHARE OPTION SCHEMES *(Continued)*

Share option scheme of GDC Tech prior to the Disposal

The following table sets out the movements in the share options of GDC Tech from 1 January 2011 to 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	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 6.9.2011
Directors	02.11.2007	02.11.2007 – 01.11.2012	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	02.11.2007	02.11.2007 – 01.11.2012	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
Totals				15,630,000	(13,096,000)	(2,095,000)	439,000

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 2012 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 2011 and amended answers and counterclaims in January 2011 and April 2011 denying X6D's allegations, asserting various affirmative defences 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 defences.

40. LITIGATION *(Continued)*

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 has reached an agreement to settle the dispute out of the Court. The agreement to resolve the disputes was signed by the parties on 13 June 2012. The Group had settled the compensation of US$242,500 (equivalent to HK$1,892,000) to X6D on 25 June 2012.

On 5 July 2012, the Court granted an order to dismiss the Defendant's claim against X6D in their entity. Upon settlement of the case, no provision for the litigation is required in the consolidated financial statements.

41. EVENT AFTER THE REPORTING PERIOD

From September 2011 to November 2012, the online training enrolment website of a wholly-owned PRC subsidiary of the Company was hacked. The case was passed to the relevant law enforcement authorities in April 2012, all hackers were arrested in Shenzhen by November 2012.

Investigations revealed that the hackers were appointed by the Group's competitor. To compensate for the economic loss suffered by the Group, the competitor made an offer of RMB3,800,000 (equivalent to HK$4,750,000) on 24 January 2013.

The Group accepted the offer and reached the settlement agreement with the competitor on 25 January 2013. It was agreed that no further civil liability against the competitor on the above issue would be claimed.

As the negotiation was only initiated after the year ended 31 December 2012 and there was no sign of indemnity before that, the compensation amounting to RMB3,800,000 (equivalent to HK$4,750,000) was regarded as a non-adjusting event and no contingent asset was recorded as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

42. 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:

	2012 HK$'000	2011 HK$'000
Within one year	**18,560**	17,937
In the second to fifth year inclusive	**63,363**	65,389
After fifth year	**414,901**	429,630
	496,824	512,956

Operating lease payment represents rentals payable by the Group for certain of its office premises, production studios, training centers, warehouse, staff quarters and occupying the land in Guangzhou for Pearl River Film Cultural Park project (Note 19). Except for the operating lease arrangement with Pearl River Film Production for a term up to 31 December 2045, leases for properties are in general, negotiated for a term ranging from one to six years.

The Group as lessor

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

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

	2012 HK$'000	2011 HK$'000
Within one year	**41,250**	27,393
In the second to fifth year inclusive	**119,190**	54,699
After fifth years	**65,542**	8,636
	225,982	90,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

43. CAPITAL COMMITMENTS

	2012	2011
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment properties	**14,285**	104,093

44. RETIREMENT BENEFITS SCHEME

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong. 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 and the PRC (collectively the "Retirement Schemes"). Contributions totalling approximately HK$500 (2011: HK$18,000) payable to the Retirement Schemes as at 31 December 2012 are included in other payables and accruals. There was no forfeited contribution in both years.

45. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2012	2011
	HK$'000	*HK$'000*
Short-term benefits	**11,137**	18,073
Post-employment benefits	**84**	105
	11,221	18,178

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2012 %	directly 2011 %	indirectly 2012 %	indirectly 2011 %	Principal activities
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	100	–	–	Investment holding
GDC Asset Management Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Animation investment
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Investment holding in Hong Kong
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
Shougang GDC Media Holding Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	100	Investment holding
重慶環球數碼動畫有限公司	Established	PRC	RMB10,000,000	–	–	–*	100	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

46. 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 2012 %	directly 2011 %	indirectly 2012 %	indirectly 2011 %	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	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	Established	PRC	US$35,353,896	–	–	100	100	Provision of CG and animation creation and production services, 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
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
重慶北部新區環球數碼動畫職業培訓學校	School	PRC	RMB100,000	–	–	–*	100	Provision of CG and animation training in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

46. 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 2012 %	directly 2011 %	indirectly 2012 %	indirectly 2011 %	Principal activities
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	68	Provision of building management service in the PRC
北京風雲環球數碼傳媒技術有限公司	Established	PRC	RMB15,000,000	–	–	100	100	Provision of graphic animation creation
廣東環球數碼動畫製作有限公司	Established	PRC	RMB800,000	–	–	80	80	Provision of graphic animation creation
深圳市環球數碼創意科技有限公司	Established	PRC	RMB2,000,000	–	–	70	–	Provision of graphic animation creation

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

* 重慶環球數碼動畫有限公司and重慶北部新區環球數碼動畫職業培訓學校have been deregistered on 23 July 2012 and 28 June 2012, respectively.

47. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2012	2011
	HK$'000	*HK$'000*
Non-current assets		
Investment in subsidiary	**–**	–
Current assets		
Prepayment, deposits and other receivables	**305**	388
Bank balances and cash	**1,651**	11,414
	1,956	11,802
Current liabilities		
Other payables and accruals	**1,415**	1,565
Net current assets	**541**	10,237
Net assets	**541**	10,237
Capital and reserves		
Share capital	**15,183**	15,183
Reserves	**(14,642)**	(4,946)
Total equity	**541**	10,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2012

47. SUMMARY FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Reserve Movement of the Company

	Share premium reserve	Contributed Surplus reserve	Share options reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	36	215,102	41,104	(230,785)	25,457
Loss and total comprehensive income for the year	–	–	–	(106,223)	(106,223)
Lapse of share options granted	–	–	(214)	214	–
Shares issued	75,820	–	–	–	75,820
At 31 December 2011	75,856	215,102	40,890	(336,794)	(4,946)
Loss and total comprehensive income for the year	–	–	–	(9,696)	(9,696)
Lapse of share options granted	–	–	(23,995)	23,995	–
At 31 December 2012	75,856	215,102	16,895	(322,495)	(14,642)

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Restated)	(Restated)	(Restated)		
Continuing operations					
Revenue	59,986	76,043	35,920	94,677	**111,022**
Continuing operations					
Profit (loss) from operations	(8,337)	(7,869)	(53,056)	(26,604)	**141,441**
Finance costs	(2,425)	(809)	(1,503)	(10,363)	**(11,353)**
Share of loss of an associate	(857)	(287)	(106)	(188)	–
Profit (loss) before tax	(11,619)	(8,965)	(54,665)	(37,155)	**130,088**
Income tax expense	–	(195)	(168)	–	**(41,057)**
Profit (loss) for the year from continuing operations	(11,619)	(9,160)	(54,833)	(37,155)	**89,031**
Discontinued operations					
Profit (loss) for the year from discontinued operations	(64,528)	40,937	144,559	387,146	–
Profit (loss) for the year	(76,147)	31,777	89,726	349,991	**89,031**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	499,058	563,470	1,032,845	1,102,018	**1,290,539**
Total liabilities	121,106	153,565	462,455	243,565	**331,047**
Net assets	377,952	409,905	570,390	858,453	**959,492**

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 Guangzhou the People's Republic of China	Commercial	Medium	68%
Building			
No. 9, Gaoxin Central Avenue 3rd Nanshan District, Shenzhen the People's Republic of China	Commercial	Medium	100%