



# SHOUGANG CONCORD GRAND (GROUP) LIMITED

Stock Code : 730

Gather Momentum



Interim Report 2008

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**CORPORATE INFORMATION**

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**Board of Directors**

Wang Qinghai (*Chairman*)  
Cao Zhong (*Vice Chairman and Managing Director*)  
Chen Zheng (*Managing Director of Operations*)  
Wang Tian (*Deputy Managing Director*)  
Yuan Wenxin (*Deputy Managing Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Tam King Ching, Kenny  
(*Independent Non-executive Director*)  
Zhou Jianhong  
(*Independent Non-executive Director*)  
Yip Kin Man, Raymond  
(*Independent Non-executive Director*)

**Executive Committee**

Cao Zhong (*Chairman*)  
Chen Zheng  
Wang Tian  
Yuan Wenxin

**Audit Committee**

Tam King Ching, Kenny (*Chairman*)  
Zhou Jianhong  
Yip Kin Man, Raymond

**Nomination Committee**

Cao Zhong (*Chairman*)  
Leung Shun Sang, Tony (*Vice Chairman*)  
Tam King Ching, Kenny  
Zhou Jianhong  
Yip Kin Man, Raymond

**Remuneration Committee**

Leung Shun Sang, Tony (*Chairman*)  
Cao Zhong (*Vice Chairman*)  
Tam King Ching, Kenny  
Zhou Jianhong  
Yip Kin Man, Raymond



**CORPORATE INFORMATION (Continued)**

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<b>Company Secretary</b>	Cheng Man Ching
<b>Qualified Accountant</b>	Chiu Ming Kin
<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Principal Registrars</b>	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
<b>Hong Kong Branch Share Registrars and Transfer Office</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered Office</b>	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
<b>Principal Office in Hong Kong</b>	Rooms 1101-04, 11th Floor Harcourt House 39 Gloucester Road Wanchai Hong Kong
<b>Stock Code</b>	730
<b>Website</b>	<a href="http://www.shougang-grand.com.hk">www.shougang-grand.com.hk</a>

## INTERIM RESULTS

The Board of Directors of Shougang Concord Grand (Group) Limited (the "Company") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2008 HK\$'000 (unaudited)</b>	2007 HK\$'000 (unaudited)
Revenue	3	<b>111,029</b>	48,857
Cost of sales		<b>(99,485)</b>	(22,228)
Gross profit		<b>11,544</b>	26,629
Other income	4	<b>6,410</b>	12,278
Distribution costs and selling expenses		<b>(6,655)</b>	(3,221)
Administrative expenses		<b>(56,462)</b>	(53,015)
Increase in fair value of investment properties		<b>13,440</b>	2,990
Changes in fair value of held-for-trading investments		<b>(24,854)</b>	11,806
Finance costs	5	<b>(2,562)</b>	(2,881)
Share of results of associates		<b>(662)</b>	(924)
Other expense	6	<b>(22,202)</b>	-
Gain on disposal and dilution of interests in subsidiaries	7	-	279,536
Gain on disposal of interest in a jointly controlled entity	8	-	61,184
(Loss) profit before tax		<b>(82,003)</b>	334,382
Income tax expense	9	<b>(2,631)</b>	(1,644)
(Loss) profit for the period	10	<b>(84,634)</b>	332,738
Attributable to:			
Equity holders of the Company		<b>(54,208)</b>	333,488
Minority interests		<b>(30,426)</b>	(750)
		<b>(84,634)</b>	332,738
(Loss) earnings per share	12		
Basic		<b>(HK4.71 cents)</b>	HK29.25 cents
Diluted		<b>N/A</b>	HK28.50 cents



**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2008

	Notes	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	13	49,536	47,634
Prepaid lease payments		7,805	7,230
Investment properties	13	154,600	141,160
Goodwill		63,332	63,332
Intangible asset	14	260,900	221,545
Interests in associates	15	22,051	424
Advance payment for acquisition of intangible asset		–	35,581
Finance lease receivables	16	1,038,158	1,029,469
Restricted bank deposits		18,422	72,482
		<b>1,614,804</b>	<b>1,618,857</b>
<b>Current assets</b>			
Inventories		55,930	25,781
Production work in progress		26,830	11,094
Amounts due from customers for contract work		1,226	1,494
Finance lease receivables	16	430,398	344,404
Trade receivables	17	27,704	19,043
Prepayments, deposits and other receivables		44,011	42,259
Prepaid lease payments		161	147
Amount due from an associate		–	1,053
Held-for-trading investments		75,744	29,846
Pledged bank deposits		3,808	8,852
Bank balances and cash		375,283	463,561
		<b>1,041,095</b>	<b>947,534</b>
<b>Current liabilities</b>			
Amounts due to customers for contract work		296	1,440
Trade payables	18	33,945	5,146
Other payables and accruals		41,476	44,848
Income received in advance		39,865	23,361
Rental and management fee deposits received		1,235	1,044
Amounts due to related parties		119	455
Amount due to a fellow subsidiary	19	100,000	–
Tax liabilities		9,592	8,291
Borrowings	20	444,398	362,267
		<b>670,926</b>	<b>446,852</b>
<b>Net current assets</b>		<b>370,169</b>	<b>500,682</b>
<b>Total assets less current liabilities</b>		<b>1,984,973</b>	<b>2,119,539</b>



**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

At 30 June 2008

	<i>Notes</i>	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Income received in advance		<b>21,778</b>	21,245
Borrowings	20	<b>1,009,785</b>	1,055,103
Security deposits received		<b>21,835</b>	73,495
Deferred tax liabilities		<b>2,184</b>	1,340
		<b>1,055,582</b>	1,151,183
<b>Net assets</b>			
		<b>929,391</b>	968,356
<b>Capital and reserves</b>			
Share capital	21	<b>11,514</b>	11,504
Reserves		<b>604,481</b>	624,310
Equity attributable to equity holders of the Company		<b>615,995</b>	635,814
Share options reserve of subsidiaries		<b>55,242</b>	55,249
Minority interests		<b>258,154</b>	277,293
<b>Total equity</b>			
		<b>929,391</b>	968,356



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium	Capital contribution reserve	Contributed surplus	Translation reserve	Shares options reserve	Special reserve	(Accumulated losses) retained profits	Total	Share options reserve of subsidiaries	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007 (audited)	11,369	417,690	445	2,135	16,369	-	-	(235,996)	212,010	5,907	3,646	221,563
Exchange differences on translation of associates/subsidiaries representing income and expense recognised directly in equity	-	-	-	-	(527)	-	-	-	(527)	-	21	(506)
Profit (loss) for the period	-	-	-	-	-	-	-	333,488	333,488	-	(750)	332,738
Release of translation reserve upon disposal of interest in a jointly controlled entity	-	-	-	-	(12,352)	-	-	-	(12,352)	-	-	(12,352)
Release of translation reserve upon disposal of interests in subsidiaries	-	-	-	-	983	-	-	-	983	-	-	983
Total recognised income and expense for the period	-	-	-	-	(11,896)	-	-	333,488	321,592	-	(729)	320,863
Recognition of share-based payments	-	-	-	-	-	14,949	-	-	14,949	7,925	-	22,874
Exercise of share options	102	5,707	-	-	-	(1,625)	-	-	4,184	-	-	4,184
Exercise of share options of subsidiaries	-	-	-	-	-	-	-	-	-	(4,716)	19,407	14,691
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	8	8	(8)	-	-
Additional contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	279,256	279,256
Dilution of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(213,676)	(213,676)
Partial disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	1,538	1,538
Additional investments in subsidiaries shared by minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	10,397	10,397
At 30 June 2007 (unaudited)	11,471	423,397	445	2,135	4,473	13,324	-	97,498	552,743	9,108	99,839	661,690
Exchange differences on translation of associates/subsidiaries representing income recognised directly in equity	-	-	-	-	13,029	-	-	-	13,029	-	3,947	16,976
Profit for the period	-	-	-	-	-	-	-	92,173	92,173	-	16,302	108,475
Total recognised income for the period	-	-	-	-	13,029	-	-	92,173	105,202	-	20,249	125,451





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

For the six months ended 30 June 2008

	Share capital	Share premium	Capital contribution reserve	Contributed surplus	Translation reserve	Shares options reserve	Special reserve	(Accumulated losses) retained profits	Share options reserve of subsidiaries	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recognition of share-based payments	-	-	-	-	-	-	-	-	49,477	-	49,477
Exercise of share options	33	1,862	-	-	-	(530)	-	1,365	-	-	1,365
Exercise of share options of subsidiaries	-	-	-	-	-	-	-	-	(3,336)	14,579	11,243
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	27,608	27,608
Additional contribution from minority shareholders	-	-	-	-	-	-	-	-	-	147,968	147,968
Dilution of interests in subsidiaries	-	-	-	-	-	-	-	-	-	(55,105)	(55,105)
Partial disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	-	1	1
Additional investments in subsidiaries shared by minority shareholders of subsidiaries	-	-	-	-	-	-	(23,496)	-	(23,496)	22,154	(1,342)
At 31 December 2007 and 1 January 2008 (audited)	11,504	425,259	445	2,135	17,502	12,794	(23,496)	169,671	635,614	55,249	988,356
Exchange differences on translation of associates/subsidiaries representing income recognised directly in equity	-	-	-	-	23,103	-	-	23,103	-	11,267	34,390
Loss for the period	-	-	-	-	-	-	(54,208)	(54,208)	-	(30,426)	(84,634)
Total recognised income and expense for the period	-	-	-	-	23,103	-	(54,208)	(31,105)	-	(19,139)	(50,244)
Recognition of share-based payments	-	-	-	-	-	10,869	-	10,869	-	-	10,869
Exercise of share options	10	559	-	-	-	(159)	-	410	-	-	410
Reduction of share premium (Note)	-	(425,259)	-	425,259	-	-	-	-	-	-	-
Elimination of accumulated losses (Note)	-	-	-	(311,818)	-	-	311,818	-	-	-	-
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	7	7	(7)	-	-
At 30 June 2008 (unaudited)	11,514	559	445	115,576	40,605	23,504	(23,496)	447,266	615,995	55,242	929,391

Note: A special resolution was passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008 and completed thereafter that an amount of approximately HK\$425,259,000 standing to the credit of the share premium account of the Company as at 31 December 2007 be reduced, with the credit arising therefrom being transferred to the contributed surplus of the Company. Upon the said transfer becoming effective, an amount of approximately HK\$311,818,000 standing to the credit of the contributed surplus of the Company has been applied to eliminate the accumulated losses of the Company as at 31 December 2007. The Company has complied with the requirements of section 46(2) of The Companies Act 1981 of Bermuda (as amended), details of which are set out in the circular of the Company dated 9 May 2008.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2008*

	<b>Six months ended 30 June</b>	
	<b>2008 HK\$'000 (unaudited)</b>	2007 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<b>(191,210)</b>	(37,551)
INVESTING ACTIVITIES		
Decrease in restricted bank deposits	<b>58,623</b>	–
Decrease (increase) in pledged bank deposits	<b>5,044</b>	(7,921)
Interest received	<b>2,832</b>	1,734
Dividend received from held-for-trading investments	<b>2,904</b>	144
Repayment from an associate	<b>1,053</b>	–
Proceeds from disposal of partial interest in a subsidiary (net of expense)	–	68,393
Proceeds from disposal of interest in a jointly controlled entity	–	56,830
Investment in an associate	<b>(21,084)</b>	–
Purchase of property, plant and equipment	<b>(5,076)</b>	(15,260)
Expenditure on product development	<b>(2,451)</b>	(1,410)
Acquisition of intangible asset	<b>(1,798)</b>	–
Prepaid lease payments made	<b>(314)</b>	(5,262)
NET CASH FROM INVESTING ACTIVITIES	<b>39,733</b>	97,248
FINANCING ACTIVITIES		
New borrowings raised	<b>139,773</b>	13,000
Advance from (repayment to) a fellow subsidiary	<b>100,000</b>	(40,000)
Issue of shares from exercise of share options	<b>410</b>	4,184
Proceeds from issue of shares by subsidiaries to minority shareholders, net of transaction costs	–	279,256
Proceeds from exercise of share options of a subsidiary	–	14,691
Repayment of borrowings	<b>(186,933)</b>	(43,465)
Repayment to a related party	<b>(336)</b>	(1,473)
Repayment of obligations under finance leases	–	(1,093)
Repayment to a shareholder	–	(512)
NET CASH FROM FINANCING ACTIVITIES	<b>52,914</b>	224,588
Net (decrease) increase in cash and cash equivalents	<b>(98,563)</b>	284,285
Cash and cash equivalents at beginning of the period	<b>463,561</b>	34,705
Effect of foreign exchange rate changes	<b>10,285</b>	118
Cash and cash equivalents at end of the period	<b>375,283</b>	319,108



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2008*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. In the current period, the Group started to share box office receipts. Details of the accounting policy are described below.

#### Share of box office receipts

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

In the current period, the Group has applied, for the first time, a number of new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008. The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company (the "Directors") are in the process of assessing the impact of the other new or revised standards, amendment or interpretation on the results and the financial position of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 3. SEGMENT INFORMATION

#### Business segments

Revenue represents finance lease income, computer graphic (“CG”) creation and films and television programme production income, the amounts received and receivable for goods sold by the Group to outside customers (less returns and trade discounts), revenue arising from providing CG training courses, property leasing and building management fee income, share of box office receipts (which are included in the digital content distribution and exhibitions division), distribution of digital motion pictures and technical service income during the period.

For management purposes, the Group is currently organised into five operating divisions – property leasing and building management services, digital content distribution and exhibitions, CG creation and films and television programme production, CG training courses and finance leasing. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these divisions is presented below:

#### Six months ended 30 June 2008

	Property leasing and building management services HK\$'000	Digital content distribution and exhibitions HK\$'000	CG creation and films and television and programme production HK\$'000	CG training courses HK\$'000	Finance leasing HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	3,062	12,699	23,555	6,024	65,689	111,029
RESULT						
Segment result	15,979	(41,770)	(9,489)	193	8,128	(26,959)
Unallocated corporate income						6,014
Unallocated corporate expenses						(32,980)
Change in fair value of held-for-trading investments						(24,854)
Finance costs						(2,562)
Share of results of associates						(662)
Loss before tax						(82,003)
Income tax expense						(2,631)
Loss for the period						(84,634)



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 3. SEGMENT INFORMATION (Continued) Business segments (Continued)

#### Six months ended 30 June 2007

	Property leasing and building management services HK\$'000	Digital content distribution and exhibitions HK\$'000	CG creation and films and television programme production HK\$'000	CG training courses HK\$'000	Finance leasing HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	3,906	13,596	27,094	4,261	-	48,857
RESULT						
Segment result	6,393	(128)	6,835	751	-	13,851
Unallocated corporate income						8,860
Unallocated corporate expenses						(37,050)
Change in fair value of held-for-trading investments						11,806
Finance costs						(2,881)
Share of results of associates						(924)
Gain on disposal and dilution of interests in subsidiaries						279,536
Gain on disposal of interest in a jointly controlled entity						61,184
Profit before tax						334,382
Income tax expense						(1,644)
Profit for the period						332,738

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 4. OTHER INCOME

Other income for the six months ended 30 June 2007 included waiver of interest payable on other loan from Win Real Management Limited and waiver of rental payable to a landlord, 深圳大學文化科技服務有限公司, in the amounts of approximately HK\$4,156,000 and HK\$3,228,000, respectively.

### 5. FINANCE COSTS

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	2,562	2,872
Other finance costs	—	9
	<b>2,562</b>	<b>2,881</b>

### 6. OTHER EXPENSE

Other expense for the six months ended 30 June 2008 represents an one-off payment for film distribution rights in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) based on an agreement with China Film Group Corporation, the majority shareholder of an associate of the Group, during the period.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

*For the six months ended 30 June 2008*

**7. GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES**

The gain on disposal and dilution of interests in subsidiaries for the six months ended 30 June 2007 of approximately HK\$279,536,000 resulted from the following transactions:

- (i) During that period, Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company with its shares listed on the Growth Enterprise Market of the Stock Exchange, issued in aggregate 260,000,000 new shares through one subscription and two top-up placing and subscriptions ("the GDC Top-up Placing Transactions"). In addition, the Group's interest in GDC has been diluted upon exercise of GDC's share options with the issue of approximately 42,770,000 new shares of GDC ("the GDC Dilution"), and the Group also disposed of approximately 44,106,000 shares of GDC ("the GDC Disposal Transaction") during that period. An aggregate gain on the GDC Top-up Placing Transactions, the GDC Dilution and the GDC Disposal Transaction of approximately HK\$239,241,000 has been recognised in the condensed consolidated income statement.
- (ii) A gain of approximately HK\$40,295,000 arising from dilution of GDC's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of a subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007.

**8. GAIN ON DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY**

The amount for the six months ended 30 June 2007 of approximately HK\$61,184,000 represented the gain on disposal of the Group's 44% interest in 北京東直門國際公寓有限公司 Beijing Dongzhimen International Apartment Co. Ltd. to China Beijing Shougang Hotel Development Company, a wholly owned subsidiary of Shougang Corporation which is an ultimate holding company of controlling shareholder of the Company, and Strength Up Investments Limited, a wholly owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang Holding") for a consideration of RMB170,000,000 during that period.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Current tax:		
Hong Kong	407	521
The PRC	1,380	1,111
	1,787	1,632
Deferred taxation:		
Current period	844	12
	2,631	1,644

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current tax for the six months ended 30 June 2008. The estimated weighted average annual tax rate used is 16.5% (30 June 2007: 17.5%) for the six months ended 30 June 2008.

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

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC Enterprise Income Tax for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction in the next three years. However, such exemption for some subsidiaries expired during the period.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 10. (LOSS) PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
(Loss) profit for the period has been arrived at after charging:		
(Reversal of) allowance for bad and doubtful debts	<b>(230)</b>	215
Amortisation of intangible asset (included in cost of sales)	<b>14,098</b>	–
Amortisation of prepaid lease payments	<b>85</b>	16
Depreciation of property, plant and equipment	<b>5,713</b>	2,093
Less: amounts included in amounts due from (to) customers for contract work	<b>(622)</b>	(1,061)
	<b>5,091</b>	1,032

#### 11. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 and 2007.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 12. (LOSS) EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
<b>(Loss) earnings</b>		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to equity holders of the Company)	<b>(54,208)</b>	333,488
	<b>'000</b>	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<b>1,151,008</b>	1,140,031
Effect of dilutive potential ordinary shares:		
– share options	–	30,125
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<b>1,151,008</b>	1,170,156

No diluted loss per share has been presented for the six months ended 30 June 2008 as the exercise of the share options would result in a decrease in the loss per share.

### 13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2008, the Group acquired property, plant and equipment of approximately HK\$5,076,000 (30 June 2007: HK\$15,260,000).

The fair value of the Group's investment properties at 30 June 2008 and 31 December 2007 has been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent qualified professional valuer not connected with the Group. AA Property Services Limited is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experiences. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The resulting increase in fair value of investment properties of approximately HK\$13,440,000 (30 June 2007: HK\$2,990,000) has been recognised directly in the condensed consolidated income statement.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 14. INTANGIBLE ASSET

	<b>Carrying value</b>
	<i>HK\$'000</i>
At 1 January 2008	221,545
Acquisition during the period	39,619
Amortisation during the period	(14,098)
Exchange realignment	13,834
	<hr/>
At 30 June 2008	260,900
	<hr/> <hr/>

The cost of investment in the intangible asset mainly represents consideration paid for the acquisition of the contracted rights to share a specified percentage of the box office receipts from those cinemas in the PRC using the digital cinema equipment sold by the Group for exhibition of digital contents. The intangible asset is amortised on a straight line basis over 10 years.

#### 15. INTERESTS IN ASSOCIATES

	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	<i>HK\$'000</i>
Cost of investment in unlisted associates	<b>22,586</b>	1,502
Share of post-acquisition results	<b>245</b>	(298)
Less: Impairment loss recognised	<b>(780)</b>	(780)
	<hr/>	<hr/>
	<b>22,051</b>	424
	<hr/> <hr/>	<hr/> <hr/>

The increase in cost of investment mainly represented additional capital injection of approximately HK\$21,084,000 made by the Group to 中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Limited ("CFGDC"), a sino-foreign equity joint venture established in the PRC with 49% equity owned by the Group. CFGDC is principally engaged in the deployment of digital cinema network and related business and has commenced its business as at 30 June 2008.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 16. FINANCE LEASE RECEIVABLES

	Minimum lease receipts		Present value of minimum lease receipts	
	30 June 2008 HK\$'000	31 December 2007 HK\$'000	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Finance lease receivables comprise:				
Within one year	546,121	453,221	430,398	344,404
In more than one year but not more than two years	638,468	445,482	565,457	367,104
In more than two years but not more than three years	293,770	465,960	261,166	427,555
In more than three years but not more than four years	142,996	162,768	128,446	147,825
In more than four years but not more than five years	86,157	77,156	81,954	71,792
More than five years	1,311	15,799	1,135	15,193
	<b>1,708,823</b>	1,620,386	<b>1,468,556</b>	1,373,873
Less: Unearned finance income	<b>(240,267)</b>	(246,513)	<b>N/A</b>	N/A
Present value of minimum lease receipts	<b>1,468,556</b>	1,373,873	<b>1,468,556</b>	1,373,873
Analysed as:				
Current finance lease receivables (receivable within 12 months)			430,398	344,404
Non-current finance lease receivables (receivable after 12 months)			1,038,158	1,029,469
			<b>1,468,556</b>	1,373,873



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 17. TRADE RECEIVABLES

	<b>30 June 2008 HK\$'000</b>	31 December 2007 HK\$'000
Trade receivables	<b>27,704</b>	19,273
Less: allowance for bad and doubtful debts	–	(230)
	<b>27,704</b>	19,043

The Group allows different credit periods to its trade customers depending on the type of products or services provided. The majority of trade customers are granted with average credit terms of 90 days.

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

	<b>30 June 2008 HK\$'000</b>	31 December 2007 HK\$'000
0 - 90 days	<b>20,828</b>	17,179
91 - 180 days	<b>5,116</b>	1,053
Over 180 days	<b>1,760</b>	811
	<b>27,704</b>	19,043

#### 18. TRADE PAYABLES

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

	<b>30 June 2008 HK\$'000</b>	31 December 2007 HK\$'000
0 - 90 days	<b>33,593</b>	4,802
91 - 180 days	<b>342</b>	344
Over 180 days	<b>10</b>	–
	<b>33,945</b>	5,146

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2008

### 19. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, interest bearing at a fixed rate of 4.2265% per annum and is repayable by 25 November 2008.

### 20. BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$139.8 million and repaid borrowings of approximately HK\$186.9 million in accordance with the repayment terms. All loans bear interest at market rates and are repayable over a period of 5 years.

### 21. SHARE CAPITAL

	30 June 2008		31 December 2007	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary share of HK\$0.01 each				
Authorised:				
At beginning and end of the period/year	<b>2,000,000,000</b>	<b>20,000</b>	2,000,000,000	20,000
Issued and fully paid:				
At beginning of the period/year	<b>1,150,392,469</b>	<b>11,504</b>	1,136,856,469	11,369
Exercise of share options	<b>1,000,000</b>	<b>10</b>	13,536,000	135
At the end of the period/year	<b>1,151,392,469</b>	<b>11,514</b>	1,150,392,469	11,504



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 22. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible directors, employees and other participants of the Group. Details of the share options outstanding during the six months ended 30 June 2008 are as follows:

	<b>Number of share options</b>
Outstanding at 1 January 2008	72,598,679
Granted on 22 January 2008	81,950,000
Exercised during the period	<u>(1,000,000)</u>
Outstanding at 30 June 2008	<u><u>153,548,679</u></u>

Included in the 81,950,000 options granted during the period, 40,000,000 options were granted to four grantees, who are employees of the Group, with the exercise period for 10 years commencing from 1 July 2008 at an exercise price of HK\$0.724 per share, subject to a condition that the grantees shall procure that the Company and/or its subsidiaries successfully obtain bank financing of HK\$100 million before 1 July 2008 (the "Condition"). As the Condition for each of the grantees was not satisfied, the 40,000,000 options lapsed on 1 July 2008 accordingly. The remaining 41,950,000 options were vested on the grant date.

The closing price of the Company's shares on 22 January 2008, which was the grant date of the remaining 41,950,000 options, was HK\$0.68 per share. The fair value for share option determined at the date of grant using the Binomial Option Valuation pricing model was HK\$0.2591 per option.

The following assumptions were used to calculate the fair value of the remaining 41,950,000 options:

	<b>22 January 2008</b>
Grant date share price	HK\$0.68
Exercise price	HK\$0.724
Option life	10 years
Expected volatility	60%
Dividend yield	Nil
Risk-free interest rate	2.78%



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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*For the six months ended 30 June 2008*

### 22. SHARE-BASED PAYMENTS (Continued)

Expected volatility of the Company was determined by using the historical volatility of the Company's weekly average share prices in the past ten years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share-based payments in respect of grant of the remaining 41,950,000 options by the Company of approximately HK\$10,869,000 for the six months ended 30 June 2008 (30 June 2007: HK\$14,949,000) was included in the administrative expenses.

### 23. PLEDGE OF ASSETS

As at 30 June 2008, the Group has the following charge on assets:

- (i) The Group's investment properties and leasehold land and building with an aggregate carrying value of approximately HK\$186.2 million (31 December 2007: HK\$171.4 million) and a bank deposit of approximately HK\$1.0 million (31 December 2007: HK\$1.1 million) were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$72.8 million (31 December 2007: HK\$78.8 million).
- (ii) The Group's finance lease receivables of approximately HK\$1,425.8 million (31 December 2007: HK\$1,345.2 million) were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$1,377.3 million (31 December 2007: HK\$1,333.9 million).
- (iii) Bank deposits of approximately HK\$18.4 million (31 December 2007: HK\$72.5 million) were restricted for the repayment of bank borrowings. These restricted bank deposits will be released upon full settlement of the relevant bank borrowings.
- (iv) The Group pledged a deposit amounted to approximately HK\$2.8 million (31 December 2007: HK\$7.8 million) to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

*For the six months ended 30 June 2008*

**24. LITIGATIONS**

- (i) On 14 May 2003, GDC Entertainment Limited (“GDC Entertainment”), a subsidiary of the Company, entered into a co-production agreement (the “Co-production Agreement”) with Westwood Audiovisual and Multimedia Consultants, Inc. (“WAMC”) and Production and Partners Multimedia, SAS (“P&PM”) in relation to an animated television series.

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

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

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*For the six months ended 30 June 2008*

### 24. LITIGATIONS (Continued)

- (ii) In April 2008, a former employee of the Company filed a claim to the District Court of Hong Kong (the "District Court") against the Company for an alleged disability discrimination to him and claimed for a compensation of approximately HK\$6,659,000. In May 2008, the Company filed a defence to the District Court. The legal advisor of the Company to the above District Court's case advised that the Company has an arguable defence to his claim and the Directors are of the opinion that settlement of the claim is remote, therefore no provision for any potential liability has been made in the condensed consolidated financial statements.

### 25. POST BALANCE SHEET EVENTS

- (i) On 12 August 2008, the Company and China Everbright Investment Management Corporation ("China Everbright") entered into a co-operation agreement pursuant to which the parties agreed to procure their respective subsidiaries to set up a joint venture company in Tianjin, the PRC to engage in the acquisition and management of non-performing assets in the PRC. The registered capital of the joint venture would be RMB130,000,000 and would be held as to 90% by the Group and as to 10% by a subsidiary of China Everbright. The Group and the subsidiary of China Everbright shall share the profits of the joint venture on the basis of 85% and 15%, which allows the subsidiary of China Everbright a higher profit sharing ratio than its equity contribution to the joint venture to compensate it for the extra work performed. Details of the transaction were set out in the announcement of the Company dated 14 August 2008.

The establishment of the joint venture in Tianjin, the PRC is not yet completed up to the date of this report.

- (ii) On 20 August 2008, the Group and 深圳市嘉殷達投資有限公司 ("Shenzhen Jiayinda"), a limited liability company established in the PRC and a 20% shareholder of South China International Leasing Company Limited ("South China Leasing"), a 80% owned subsidiary of the Company, entered into a share transfer agreement pursuant to which Shenzhen Jiayinda agreed to transfer its 20% equity interest in the registered capital of South China Leasing to the Group for a consideration of RMB31,755,150 (the "Transfer"). Details of the Transfer were set out in the announcement of the Company dated 21 August 2008.

The Transfer is not yet completed up to the date of this report.

- (iii) On 28 August 2008, the Group as borrower signed a facility agreement with China Construction Bank (Asia) Corporation Limited as lender and Shougang Holding and the Company as guarantors for a revolving loan facility of up to HK\$92 million (the "Facility"). The final maturity date of the Facility falls on the date being 24 months after the date of the agreement. Details of which are set out in the announcement of the Company dated 29 August 2008.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (Continued)

For the six months ended 30 June 2008

#### 26. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the condensed consolidated balance sheet on pages 5 and 6 and note 19, the Group also entered into the following transactions with related parties during the period:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Subsidiaries of Shougang Holding:		
Interest expense charged by Shougang (Hong Kong) Finance Limited	<b>417</b>	109
Rental income received from Gold Regal Limited	<b>71</b>	71
Rental expenses charged by Winluck Properties Limited	<b>–</b>	808
Shareholders:		
Consultancy expenses charged by Shougang Holding	<b>480</b>	480
Associate of Shougang Holding:		
Management fee charged by Shougang Concord International Enterprises Company Limited (“Shougang International”)	<b>570</b>	570

At 30 June 2008, the Group's held-for-trading investments included listed securities of 24,544,000 shares (31 December 2007: 1,112,000 shares) of GDC, a subsidiary of the Company, 13,870,000 shares (31 December 2007: 13,870,000 shares) of Shougang Concord Century Holdings Limited (“Shougang Century”), 12,526,000 shares (31 December 2007: 4,120,000 shares) of Shougang Technology Holdings Limited (“Shougang Technology”) and 230,000 shares (31 December 2007: 230,000 shares) of Shougang International. Shougang Century, Shougang Technology and Shougang International are associates of Shougang Holding.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**Deloitte.****德勤****TO THE BOARD OF DIRECTORS OF SHOUGANG CONCORD GRAND (GROUP) LIMITED**  
*(incorporated in Bermuda with limited liability)***Introduction**

We have reviewed the interim financial information set out on pages 4 to 27, which comprises the condensed consolidated balance sheet of Shougang Concord Grand (Group) Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six months then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of Review**

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

**Conclusion**

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

**Deloitte Touche Tohmatsu***Certified Public Accountants*

Hong Kong, 1 September 2008



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

Revenue for the six months ended 30 June 2008 was approximately HK\$111,029,000 when compared with that of approximately HK\$48,857,000 for the corresponding period in the year 2007, represented an increase of approximately 127%. The increase was mainly attributable to consolidation of the finance lease income of approximately HK\$65,689,000 during this period upon completion of the acquisition of further 30% effective interest in South China International Leasing Company Limited ("South China Leasing") in November 2007 and the share of box office receipts from the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) cooperated by China Film Group Corporation ("CFG") and the Group (the "PRC Digital Cinema Project") of approximately HK\$2,424,000 during the period, netting off with the decrease in revenue from computer graphic ("CG") creation and films and television programme production division by approximately HK\$3,539,000.

Cost of sales for the six months ended 30 June 2008 amounted to approximately HK\$99,485,000 which, comparing with that of approximately HK\$22,228,000 for the corresponding period in the year 2007, represented an increase of approximately 348%. The increase was mainly due to consolidation of the cost of finance leasing of approximately HK\$53,546,000 during the period upon completion of the acquisition of further 30% effective interest in South China Leasing in November 2007 and amortisation of intangible asset of the PRC Digital Cinema Project of approximately HK\$14,098,000.

The Group made a gross profit of approximately HK\$11,544,000 for the six months ended 30 June 2008, representing a gross profit margin of approximately 10%. Comparing with that gross profit margin of approximately 55% for the corresponding period in the year 2007, the decrease was mainly due to the finance leasing division was operated at a relatively lower margin of approximately 18% and inclusion of amortisation of intangible asset in the amount of cost of sales.

Other income for the six months ended 30 June 2008 amounted to approximately HK\$6,410,000 (30 June 2007: HK\$12,278,000), representing a decrease of approximately 48%. The decrease was mainly due to the amount for the corresponding period in the year 2007 included an one-off income upon waiver of interest payable on other loan and rental payable amounted to approximately HK\$4,156,000 and HK\$3,228,000, respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL OVERVIEW (Continued)

Administrative expenses for the six months ended 30 June 2008 amounted to approximately HK\$56,462,000 (30 June 2007: HK\$53,015,000), representing an increase of approximately 7%. The increase was mainly due to consolidation of administrative expenses of the finance leasing division and growth in the operations of other divisions of the Group, netting off with decrease in the recognition of equity-settled share-based payments from approximately HK\$22,874,000 for the corresponding period in the year 2007 to approximately HK\$10,869,000 for the share options granted for this period.

Other expense of approximately HK\$22,202,000 (30 June 2007: Nil) for the six months ended 30 June 2008 represented an one-off payment for film distribution rights in the PRC based on an agreement with CFGC.

Gain on disposal and dilution of interests in subsidiaries of approximately HK\$279,536,000 for the six months ended 30 June 2007 included (i) approximately HK\$239,241,000 from the gain on disposal and dilution of the Group's interest in Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited from issue of approximately 302,770,000 new shares in total by GDC through completion of one subscription and two top-up placing and subscriptions and exercise of its share options during that period and disposal of approximately 44,106,000 shares of GDC by the Group; and (ii) approximately HK\$40,295,000 from the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology") upon the completion of the subscription of 52,383,580 shares of GDC Technology at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007.

Gain on disposal of interest in a jointly controlled entity of approximately HK\$61,184,000 for the six months ended 30 June 2007 represented the gain on disposal of the Group's 44% interest in 北京東直門國際公寓有限公司 Beijing Dongzhimen International Apartment Co. Ltd. for a consideration of RMB170,000,000. The disposal was approved by the independent shareholders of the Company in January 2007 and was completed in June 2007 upon receipt of approval from the relevant authorities in the PRC.

Overall, the Group recorded loss of approximately HK\$54,208,000 for the six months ended 30 June 2008 attributable to equity holders of the Company, when compared with that profit of approximately HK\$333,488,000 for the corresponding period in the year 2007.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW AND OUTLOOK

#### Cultural Recreations Content Provision and Distribution

##### *Digital content distribution and exhibitions*

The performance of digital content distribution and exhibitions division depends on two most important factors, namely Virtual Print Fees (“VPF”) financing and direct orders from exhibitors. During the six months ended 30 June 2008, slow down of the negotiations of VPF between the Hollywood studios and the major exhibitors in the United States and the current banking crisis in the United States threw more doubts into the deployment of digital cinemas, it was expected that the deployment worldwide would be delayed. However, a NASDAQ listed company, which is the largest (VPF based) digital cinema deployment entity, signed a new VPF deal with four Hollywood studios for the second phase of deployment of another 10,000 digital cinemas in the United States, and a leading digital cinema service company in Europe signed a VPF deal with six Hollywood studios for the deployment of 8,000 digital cinemas there. Besides, at least ten 3D titles are planned for release in the year 2009, the demand for digital 3D cinema equipment would increase. As such, it is expected the deployment of digital cinemas worldwide has yet to begin.

The Group continues to deliver DSR™ range of products designed for the exhibitors around the world and develop new products that aim to meet more than the standard Digital Cinema Initiative (“DCI”) specifications. At 2008 ShoWest convention in the United States, the Group launched a new digital cinema product – True 3D™ Digital Cinema System. The new True 3D™ server was demonstrated with two stacked DLP Cinema™ projectors, producing 4.5 ft-L of light to each eye. According to the industrial observers, this is the first and unique digital cinema server capable of playing full-bandwidth, 12-bit 4:4:4 color representation to two projectors. More importantly, the new True 3D™ server is able to present bigger and brighter 3D images than a single projector and render 500 times more color information than those supplied by its competitors. At present, only the new True 3D™ server can meet the preferred requirement of the DCI stereoscopic specifications. The new True 3D™ server newly developed will differentiate the Group’s digital cinema technology from its competitors.

In addition, the Group diversified certain DSR™ products to other markets which are not affected by the VPF deal, such as digital signage. During this period, the Group installed networked digital signage solutions to new customers in Asia including flagship cinema multiplexes in Hong Kong and major cities in the PRC.





## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW AND OUTLOOK (Continued)

#### Cultural Recreations Content Provision and Distribution (Continued)

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

As at 30 June 2008, the PRC Digital Cinema Project installed about 450 units of digital cinema equipment to cinemas in all the 27 provinces in the PRC and began to generate revenue during this period. CFGC and the Group is now considering to closer their cooperation by grouping their respective resources to their sino-foreign joint venture, 中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Limited (“CFGDC”) in order to process further the PRC Digital Cinema Project with an aim to promote the digital cinema business in the PRC.

The box office in the PRC during the six months ended 30 June 2008 continued to report a significant growth of above 50%, comparing with the corresponding period in the year 2007. Because of the blooming economy development and the strong domestic consumption in the PRC, it is expected that the box office will increase further in the future. With the continuing growth in the box office and the increase in the deployment of digital cinemas in the PRC, the performance of the PRC Digital Cinema Project will improve accordingly. Besides, CFGC and the Group have also explored the alternative revenue in addition to the share of box office receipts for the PRC Digital Cinema Project.

##### *CG creation and films and television programme production*

Due to the slow down of global economy since late 2007, several clients for CG creation and production postponed the commencement of their production plans, it resulted in lower revenue and incurred loss for this division during this period. Most of these CG projects did eventually commenced during this period, and the Group monitored the progress of them closely to ensure timely and high quality completion of these CG projects. Considering the value of CG orders signed and confirmed up to the date of this report, the performance of this division for the future twelve months will have significant growth both in revenue and profit when comparing with that for the year 2007 and this division is expected to be profitable for the whole year 2008 as well.

Besides, the Group is actively developing new clients and has secured several CG projects with some world leading entertainment brands for animated TV series and the theatrical film. The Group is also in discussion of co-production opportunities with several large North American and European children's entertainment content development and broadcasting companies. Many existing and prospective clients have expressed the desire for long term and multi-project relationship with the Group based on the demonstrated track record of offering reliable, cost effective, high quality CG production services to international market.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW AND OUTLOOK (Continued)

#### Cultural Recreations Content Provision and Distribution (Continued)

##### *CG creation and films and television programme production (Continued)*

To deal with the expected growth in CG orders, the Group established a subsidiary in the city of Chongqing, the CG production studio there is under construction and the production capacity will be completed at the fourth quarter of the year 2008.

Furthermore, after the release of "Thru the Moebius Strip" in the year 2006, the Group's second full-length feature CGI film, "Happy Little Submarines", a co-production with a Hollywood leading animation studio, was released in June 2008 in over 260 digital cinema multiplies across the PRC and received positive box office receipts and media responses. The Group considered it should apply the gains from this children's film to help benefit kids in dire needs, the Group would donate its share of the box office receipts from the first three-day opening release of this film towards the effort of rebuilding an elementary school damaged by the recent earthquakes in Sichuan. Several international leading trade magazines covered and appraised this decision.

Following the success of its co-production effort, the Group will actively develop its original content creation business through different forms, including sole investment and co-production, in order to generate revenue from distribution and IP sales in addition to the existing CG creation and production revenue.

On the other hand, the Group would also focus at producing television series with relatively reliable return. During this period, the Group produced four television series in the PRC while production of another five series was under planning.

##### *CG training*

CG training division continues its strategy towards professionalism. Through continued improvement in the management system and infrastructure, comprehensive training materials for different categories, the Group maintained a leading position in the CG professional training domain in the PRC. This division recorded steady revenue growth of approximately 41% for the six months ended 30 June 2008, comparing with the corresponding period in the year 2007.

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



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW AND OUTLOOK (Continued)

#### Cultural Recreations Content Provision and Distribution (Continued)

##### *CG training (Continued)*

Besides, the Group cooperates with several famous high schools in the PRC for “Skill and Qualification” training programme for their students to achieve their aim to have “One Course, Several Certifications” and train up their practical production skills ready for the employment.

In addition to the Group’s training centres in Shanghai and Shenzhen, the Group plans to further expand its training network by setting up direct operation training sites throughout the PRC, the Group has already set up one site each in Chongqing and Wuxi.

#### Financial Service Provision

##### *Financial investment*

Reference to the announcements of the Company dated 12 June 2008 and 14 August 2008 relating to the development of finance and assets investment and management business in the PRC between the Group and China Everbright Investment Management Corporation (“China Everbright”), the Group and China Everbright would set up a joint venture company in Tianjin to engage in the acquisition and management of non-performing assets in the PRC with registered capital of RMB130 million. The Group believes that assets management is an area that has good development potential in the PRC and the establishment of the joint venture company with China Everbright will present the Group with a suitable platform to enter into this market.

##### *Finance leasing*

During the six months ended 30 June 2008, the amount of contracts newly entered by the finance leasing division amounted to approximately HK\$176.1 million, revenue from this division amounted to approximately HK\$65.7 million, representing an increase of approximately 31% when compared with that for the corresponding period in the year 2007 and the segment result improved from loss for the corresponding period in the year 2007 to profit of approximately HK\$8.1 million for this period.

Taking into account of the prospects of the finance leasing market in the PRC, it is the intention of the Group to increase its participation in this market and further develop the business of South China Leasing. Further to the completion of the acquisition of further 30% effective interest in South China Leasing in November 2007, the Company announced on 21 August 2008 that the Group would acquire the remaining 20% equity interest in the registered capital of South China Leasing from the minority shareholder for a consideration of RMB31,755,150. The Group considered that this acquisition would enable the Group to further develop this business and seize the opportunities presented in this market in the PRC without the hindrances of the involvement of a minority shareholder.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW AND OUTLOOK (Continued)

#### Property Investment and Management

The property leasing and building management fee income for the six months ended 30 June 2008 decreased by approximately 22% while the resalable value of the Group's investment properties have been improved comparing with the corresponding period in the year 2007. The Group was receiving stable cash flow from rental income and expected that the investment properties would continue to contribute stable cash return in the foreseeable future.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008 the Group had bank balances and cash, restricted bank deposits and pledged bank deposits of approximately HK\$375.3 million (31 December 2007: HK\$463.6 million), HK\$18.4 million (31 December 2007: HK\$72.5 million) and HK\$3.8 million (31 December 2007: HK\$8.9 million), respectively, which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The decrease was mainly from net cash used in operating activities of approximately HK\$191.2 million and investment in an associate of approximately HK\$21.1 million, netting off with advance from a fellow subsidiary of HK\$100.0 million and net increase in borrowings of approximately HK\$11.5 million.

The Group's borrowings amounted to approximately HK\$1,554.2 million as at 30 June 2008, of which approximately HK\$544.4 million were repayable within twelve months from 30 June 2008 and approximately HK\$1,009.8 million were repayable after twelve months from 30 June 2008. All loans bear interest at market rates and are wholly repayable within five years.

As at 30 June 2008, gearing ratio (calculated as borrowings less bank balances and cash, restricted bank deposits and pledged bank deposits divided by total equity) was approximately 124% (31 December 2007: 90%). As at 30 June 2008, the Group had current ratio of approximately 155% (31 December 2007: 212%) based on current assets of approximately HK\$1,041.1 million and current liabilities of approximately HK\$670.9 million. The Group's leverage decreased was mainly attributable to loss for the period, and net cash used in operating activities and investment in an associate, netting off with advance from a fellow subsidiary and net increase in borrowings.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK\$616.0 million as at 30 June 2008 (31 December 2007: HK\$635.8 million). The decrease was mainly due to loss for the six months ended 30 June 2008 attributable to equity holders of the Company of approximately HK\$54.2 million, netting off with the exchange differences on translation of foreign operations of approximately HK\$23.1 million and recognition of equity-settled share-based payments for the share options granted by the Company of approximately HK\$10.9 million.

### MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the capital injection to CFGDC as mentioned in note 15 to the condensed consolidated financial statements, the Group had no material acquisitions, disposals and significant investment during the six months ended 30 June 2008.

### CHARGE ON ASSETS

As at 30 June 2008, the Group has the following charge on assets:

- (i) The Group's investment properties and leasehold land and building with an aggregate carrying value of approximately HK\$186.2 million and a bank deposit of approximately HK\$1.0 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$72.8 million.
- (ii) The Group's finance lease receivables with a carrying value of approximately HK\$1,425.8 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$1,377.3 million.
- (iii) There were bank deposits of approximately HK\$18.4 million restricted for the repayment of bank borrowings, which will be released upon full settlement of the relevant bank borrowings.
- (iv) The Group pledged a deposit amounting to approximately HK\$2.8 million to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### FOREIGN EXCHANGE EXPOSURE

The normal operations and investments of the Group are mainly in Hong Kong and the PRC, with revenue and expenditure denominated in Hong Kong dollars, Renminbi and United States dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 30 June 2008, the Group has no significant exposure under foreign exchange.

### CONTINGENT LIABILITIES

Saved as disclosed in note 24 to the condensed consolidated financial statements about litigations proceeding, the Group had no significant contingent liabilities as at 30 June 2008.

### EMPLOYEES

As at 30 June 2008, the Group employed 495 (31 December 2007: 492) full time employees (excluding those under the payroll of the associates and the jointly controlled entity of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group. Remuneration packages are reviewed either annually or by special increment.

During the six months ended 30 June 2008, the Company and its subsidiaries has not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

### INTERIM DIVIDEND

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The Board did not declare an interim dividend for the six months ended 30 June 2008 (2007: Nil).

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

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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 of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

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

The Directors who held office at 30 June 2008 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2008 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30.06.2008
		Interests in shares	Interests under equity derivatives*	Total interests	
Wang Qinghai	Beneficial owner	-	11,368,000	11,368,000	0.99%
Cao Zhong	Beneficial owner	-	22,868,000	22,868,000	1.99%
Chen Zheng	Beneficial owner	-	18,368,000	18,368,000	1.60%
Wang Tian	Beneficial owner	4,000,000	11,094,000	15,094,000	1.31%
Yuan Wenxin	Beneficial owner	4,000,000	15,094,000	19,094,000	1.66%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	19,368,679	27,646,679	2.40%
Tam King Ching, Kenny	Beneficial owner	-	2,286,000	2,286,000	0.20%
Zhou Jianhong	Beneficial owner	-	2,286,000	2,286,000	0.20%
Yip Kin Man, Raymond	Beneficial owner	-	2,286,000	2,286,000	0.20%

\* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.01 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.*



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

**(b) Long positions in the shares and underlying shares of Global Digital Creations Holdings Limited ("GDC"), an associated corporation of the Company**

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC			Total interests as to % to the issued share capital of GDC as at 30.06.2008
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Chen Zheng	Beneficial owner	8,718,200	4,900,000	13,618,200	1.05%
Wang Tian	Beneficial owner	820	-	820	0.00%
Leung Shun Sang, Tony	Beneficial owner	8,680,200	4,900,000	13,580,200	1.05%
Zhou Jianhong	Beneficial owner	500,615	-	500,615	0.04%

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



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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech			Total interests as to % to the issued share capital of GDC Tech as at 30.06.2008
		Interests in shares	Interests		
			under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%

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

Save as disclosed above, as at 30 June 2008, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2008.



## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2008, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 30.06.2008	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	489,450,710	42.51%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	430,491,315	37.39%	1
Prime Success Investments Limited ("Prime Success")	Beneficial owner	58,959,395	5.12%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	133,048,717	11.56%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	91,491,193	7.95%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	133,048,717	11.56%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	133,048,717	11.56%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	133,048,717	11.56%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	133,048,717	11.56%	3



## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Continued)

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*Notes:*

1. Shougang Holding indicated in its disclosure form dated 28 September 2007 (being the latest disclosure form filed up to 30 June 2008) that as at 25 September 2007, its interests included 430,491,315 and 58,959,395 shares of the Company held by Wheeling and Prime Success respectively, both were wholly-owned subsidiaries of Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 26 February 2005 (being the latest disclosure form filed up to 30 June 2008) that as at 23 February 2005, its interests included 91,491,193 shares of the Company held by Max Same, a wholly-owned subsidiary of Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, as at 30 June 2008, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.



## SHARE OPTIONS

### (a) Share options of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company. No share option was cancelled or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2008. Details of movement in the share options under the Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Granted during the period <sup>1</sup>	Exercised during the period <sup>2</sup>	At the end of the period			
<b>Directors of the Company</b>							
Wang Qinghai	11,368,000	-	-	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
Cao Zhong	11,368,000	-	-	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	11,500,000	-	11,500,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	11,368,000	11,500,000	-	22,868,000			
Chen Zheng	11,368,000	-	-	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	7,000,000	-	7,000,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	11,368,000	7,000,000	-	18,368,000			
Wang Tian	5,094,000	-	-	5,094,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	6,000,000	-	6,000,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	5,094,000	6,000,000	-	11,094,000			
Yuan Wenxin	9,094,000	-	-	9,094,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	6,000,000	-	6,000,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	9,094,000	6,000,000	-	15,094,000			

## SHARE OPTIONS (Continued)

## (a) Share options of the Company (Continued)

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Granted during the period <sup>1</sup>	Exercised during the period <sup>2</sup>	At the end of the period			
<b>Directors of the Company (Continued)</b>							
Leung Shun Sang, Tony	75	-	-	75	23.08.2002	23.08.2002 – 06.06.2012	HK\$0.730
	604	-	-	604	06.03.2003	06.03.2003 – 05.03.2013	HK\$0.760
	11,368,000	-	-	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	8,000,000	-	8,000,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	11,368,679	8,000,000	-	19,368,679			
Tam King Ching, Kenny	1,136,000	-	-	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	1,150,000	-	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	1,136,000	1,150,000	-	2,286,000			
Zhou Jianhong	1,136,000	-	-	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	1,150,000	-	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	1,136,000	1,150,000	-	2,286,000			
Yip Kin Man, Raymond	1,136,000	-	-	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	-	1,150,000	-	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	1,136,000	1,150,000	-	2,286,000			
	63,068,679	41,950,000	-	105,018,679			



## SHARE OPTIONS (Continued)

### (a) Share options of the Company (Continued)

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Granted during the period <sup>1</sup>	Exercised during the period <sup>2</sup>	At the end of the period			
Employees of the Group	1,330,000	-	-	1,330,000	06.03.2003	06.03.2003 - 05.03.2013	HK\$0.760
	8,200,000	-	(1,000,000)	7,200,000	19.01.2007	19.01.2007 - 18.01.2017	HK\$0.410
	-	40,000,000 <sup>3</sup>	-	40,000,000	22.01.2008	01.07.2008 - 30.06.2018	HK\$0.724
	9,530,000	40,000,000	(1,000,000)	48,530,000			
	72,598,679	81,950,000	(1,000,000)	153,548,679			

#### Notes:

- The closing price of the shares of the Company immediately before the date on which the share options were granted was HK\$0.72 per share.
  - The details of the value of the share options granted during the period are set out in note 22 to the condensed consolidated financial statements.
- The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$0.67 per share.
- Such share options were granted subject to a condition that the grantees shall procure that the Company and/or its subsidiaries can successfully obtain bank financing of HK\$100 million before 1 July 2008. If such condition is not satisfied, all the options granted would lapse on 1 July 2008. As the condition was not satisfied, the total of 40,000,000 options were lapsed subsequent to the period end on 1 July 2008.

## SHARE OPTIONS (Continued)

### (b) Share options of a subsidiary of the Company – GDC

On 18 July 2003, the GDC Scheme which complies with the requirements of Chapter 23 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange was adopted by the shareholders of GDC. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the GDC Scheme during the six months ended 30 June 2008. Details of movement in the share options under the GDC Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
<b>Directors of the Company</b>				
Cao Zhong	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Chen Zheng	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Leung Shun Sang, Tony	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>14,700,000</u>			
<b>Employees of the Group</b>				
	9,708,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK\$1.07
	3,323,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	21,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>37,231,200</u>			
<b>Other participants</b>				
	1,601,640	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	720,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	1,470,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>3,791,640</u>			
	<u>55,722,840</u>			



## SHARE OPTIONS (Continued)

### (c) Share options of a subsidiary of the Company – GDC Tech

On 19 September 2006, the GDC Tech Scheme was adopted by the shareholders of GDC and the Company. No share option was granted, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the six months ended 30 June 2008. Details of movement in the share options under the GDC Tech Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
<b>Directors of the Company</b>						
Cao Zhong	1,650,000	-	1,650,000	02.11.2007	02.11.2007 - 01.11.2012	HK\$2,000
Chen Zheng	1,650,000	-	1,650,000	02.11.2007	02.11.2007 - 01.11.2012	HK\$2,000
Leung Shun Sang, Tony	3,333 <sup>1</sup>	-	3,333	29.09.2006	29.09.2006 - 28.09.2009	HK\$0.145
	1,650,000	-	1,650,000	02.11.2007	02.11.2007 - 01.11.2012	HK\$2,000
	1,653,333	-	1,653,333			
	4,953,333	-	4,953,333			
<b>Other individual with options granted in excess of limit</b>						
Lu Yi, Gloria	12,000,000 <sup>2</sup>	-	12,000,000	02.11.2007	02.11.2007 - 01.11.2012	HK\$2,000



## SHARE OPTIONS (Continued)

## (c) Share options of a subsidiary of the Company – GDC Tech (Continued)

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
Employees of the Group	1,173,333	–	1,173,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	4,563,332	(500,000) <sup>3</sup>	4,063,332	05.10.2006	05.10.2006 – 04.10.2009	HK\$0.145
	1,650,000	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
	7,386,665	(500,000)	6,886,665			
Other participants	495,000	–	495,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
	24,834,998	(500,000)	24,334,998			

## Notes:

1. The number of share options granted to Mr. Leung Shun Sang, Tony on 29 September 2006 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of GDC and the Company on 19 September 2006 respectively.
2. The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of GDC and the Company on 30 October 2007 respectively.
3. The share options were held by a grantee who ceased to be an employee of the Group during the period and such share options were lapsed on 28 June 2008.



## AUDIT COMMITTEE

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The Company has engaged the Auditor to assist the Audit Committee to review the 2008 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 25 August 2008 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2008.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2008, except for the following deviations:

- Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a special term, should be subject to retirement by rotation at least once every three years.

In order to comply with the applicable laws of Bermuda, the Chairman and the Managing Director are not subject to retirement by rotation under the Bye-laws. However, they will voluntarily retire and offer themselves for re-election at least once every three years in order to comply with the second part of code provision A.4.2 of the Code.

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

The Chairman of the Board had not attended the annual general meeting of the Company held on 6 June 2008 (the “Meeting”) as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2008.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

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Under the facility agreement dated 28 August 2008 (the "Facility Agreement") entered into between China Construction Bank (Asia) Corporation Limited (the "Bank") as lender, SCG Finance Corporation Limited ("SCG Finance"), a wholly-owned subsidiary of the Company, as borrower, Shougang Holding and the Company as guarantors in relation to a revolving loan facility of up to HK\$92,000,000 (the "Facility") made available by the Bank to SCG Finance, each of the following will constitute a covenant and the non-compliance with any covenant will constitute an event of default upon which the Facility will, among others, become immediately due and payable: (i) Shougang Holding shall directly or indirectly own 35% or more of all the issued share capital of the Company; (ii) the consolidated tangible net worth of Shougang Holding shall not be less than HK\$2 billion; (iii) the total liabilities of Shougang Holding shall not exceed 200 per cent. of its consolidated tangible net worth; and (iv) the consolidated EBITDA (including share of results of associates) of Shougang Holding shall not be less than 3 times interest expenses. The final maturity date of the Facility falls on the date being 24 months after the date of the Facility Agreement.

## APPRECIATION

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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 management and staff for their hard work and dedication throughout the period.

By Order of the Board

**Cao Zhong**

*Vice Chairman and Managing Director*

Hong Kong, 1 September 2008

