# Annual report 2008

# SHOUGANG CONCORD GRAND (GROUP) LIMITED

Stock Code : 730

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# CORPORATE INFORMATION

## 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

## COMPANY SECRETARY
Cheng Man Ching

## AUDITOR
Deloitte Touche Tohmatsu

## PRINCIPAL REGISTRARS
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

## HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL OFFICE IN HONG KONG
Rooms 1101-04, 11th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

## STOCK CODE
730

## WEBSITE
www.shougang-grand.com.hk

# DIRECTORS' BIOGRAPHIES

**Mr. Wang Qinghai**, aged 50, senior engineer. Mr. Wang was appointed the Chairman of the Company, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and Shougang Concord International Enterprises Company Limited ("Shougang International") in April 2001. He is the general manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and has extensive experience in management and operation.

An engagement letter has been entered into with Mr. Wang for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Wang will receive a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time pursuant to the authority given by the shareholders of the Company (the "Shareholders"). For the financial year ending 31 December 2009, the director's fee of Mr. Wang will be HK$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wang. For the financial year ended 31 December 2008, the director's fee of Mr. Wang is HK$150,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Wang's experience and duties as well as the then prevailing market conditions.

**Mr. Cao Zhong**, aged 49, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Vice Chairman of the Company in November 2001 and has acted concurrently as the Managing Director of the Company since February 2006. He is also the Chairman of each of the Executive Committee and the Nomination Committee of the Company and the Vice Chairman of the Remuneration Committee of the Company. Mr. Cao was appointed the joint chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of the Company, in February 2005 and is currently the chairman of GDC. He was also appointed the deputy chairman and general manager of Shougang Holding, a substantial shareholder of the Company within the meaning of Part XV of the SFO, the managing director of Shougang International, the chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was appointed an executive director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the chairman of APAC in May 2007. He was appointed a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, in December 2008. He was also appointed an executive director of Fushan International Energy Group Limited ("Fushan") in March 2009 and is currently the chairman of Fushan. Mr. Cao is a director of Wheeling Holdings Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO. He also acts as the assistant general manager of Shougang Corporation and the chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Service contracts have been entered into between Mr. Cao and each of two subsidiaries of the Company both for a term of three years commencing on 1 January 2008 for his services to the Company and GDC respectively. Under the service contracts, Mr. Cao is entitled to monthly salaries of HK$300,000 in aggregate which are determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Cao is also entitled to discretionary bonuses as may be determined by the Remuneration Committee of each of the Company and GDC from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonuses received by Mr. Cao are HK$650,000.

**Mr. Chen Zheng**, aged 49, engineer and senior economist. He holds a bachelor degree in chemical engineering and a master degree in business administration. Mr. Chen was appointed an Executive Director of the Company in January 2004 and is currently the Managing Director of Operations of the Company. He is also a member of the Executive Committee of the Company. He was also appointed an executive director of GDC in February 2005 and is currently the managing director of GDC. Mr. Chen has extensive experience in investing business and corporate management.

Service contracts have been entered into between Mr. Chen and each of two subsidiaries of the Company both for a term of three years commencing on 1 January 2008 for his services to the Company and GDC respectively. Under the service contracts, Mr. Chen is entitled to monthly salaries of HK$250,000 in aggregate which are determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Chen is also entitled to discretionary bonuses as may be determined by the Remuneration Committee of each of the Company and GDC from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonuses received by Mr. Chen are HK$250,000.

**Mr. Wang Tian**, aged 53, senior economist. He holds a PhD degree in economics. Mr. Wang was appointed an Executive Director of the Company in March 2004 and is currently the Deputy Managing Director of the Company. He is also a member of the Executive Committee of the Company. He has extensive experience in the field of financial management. He had been awarded certificate and special allowance from the Government of the People's Republic of China as a commendation for his outstanding contribution in developing the financial business in Mainland China.

A service contract has been entered into between Mr. Wang and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Wang is entitled to a monthly salary of HK$120,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Wang is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Wang is HK$120,000.

**Mr. Yuan Wenxin**, aged 39, graduated from Hunan University Law School with a bachelor degree in law and a post-graduate diploma in finance. Mr. Yuan was appointed an Executive Director of the Company in August 2005 and is currently the Deputy Managing Director of the Company. He is also a member of the Executive Committee of the Company. He was an assistant general manager of Shougang Holding and a director of Shougang Technology. Mr. Yuan has extensive experience in financial investment and corporate restructuring.

A service contract has been entered into between Mr. Yuan and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Yuan is entitled to a monthly salary of HK$120,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Yuan is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Yuan is HK$120,000.

**Mr. Leung Shun Sang, Tony**, aged 66. Mr. Leung was appointed a Non-executive Director of the Company in July 1995 and a non-executive director of GDC in December 2005. He is also the Chairman of the Remuneration Committee of the Company and the Vice Chairman of the Nomination Committee of the Company. He is a director of each of Shougang International, Shougang Technology and Shougang Century. He was also appointed a non-executive director of Fushan in March 2009. Mr. Leung is the managing director of CEF Group. He holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management.

Engagement letters have been entered into with Mr. Leung for a term of three years commencing on 1 January 2008 for his offices as a Non-executive Director of each of the Company and GDC respectively. Under the engagement letters, Mr. Leung will receive director's fees as may be determined by the boards of directors of the Company and GDC from time to time pursuant to the authorities given by the shareholders of the Company and GDC respectively. For the financial year ending 31 December 2009, the director's fee of Mr. Leung will be HK$380,000 in aggregate for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. For the financial year ended 31 December 2008, the director's fee of Mr. Leung is HK$380,000 in aggregate. The relevant director's fees were determined by the boards of directors of the Company and GDC pursuant to the authorities given by the shareholders of the Company and GDC respectively and with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

**Mr. Tam King Ching, Kenny**, aged 60. Mr. Tam was appointed an Independent Non-executive Director of the Company in February 1996. He is also the Chairman of the Audit Committee of the Company and a member of each of the Nomination Committee and Remuneration Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review Committee in the Hong Kong Institute of Certified Public Accountants. He is a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of four other listed companies on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), namely, CCT Telecom Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited, and a listed company on the Growth Enterprise Market of the Stock Exchange, namely, North Asia Strategic Holdings Limited. He was an independent non-executive director of Yun Sky Chemical (International) Holdings Limited, a Hong Kong listed company, during the period from August 2005 to September 2008.

An engagement letter has been entered into with Mr. Tam for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Tam will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Tam will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Tam. For the financial year ended 31 December 2008, the director's fee of Mr. Tam is HK$240,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

**Ms. Zhou Jianhong**, aged 43. Ms. Zhou was appointed an Independent Non-executive Director of the Company in September 2004. She is also a member of each of the Audit, Nomination and Remuneration Committee of the Company. She is a practising solicitor in Hong Kong. Ms. Zhou graduated from Peking University with a master degree in economic law.

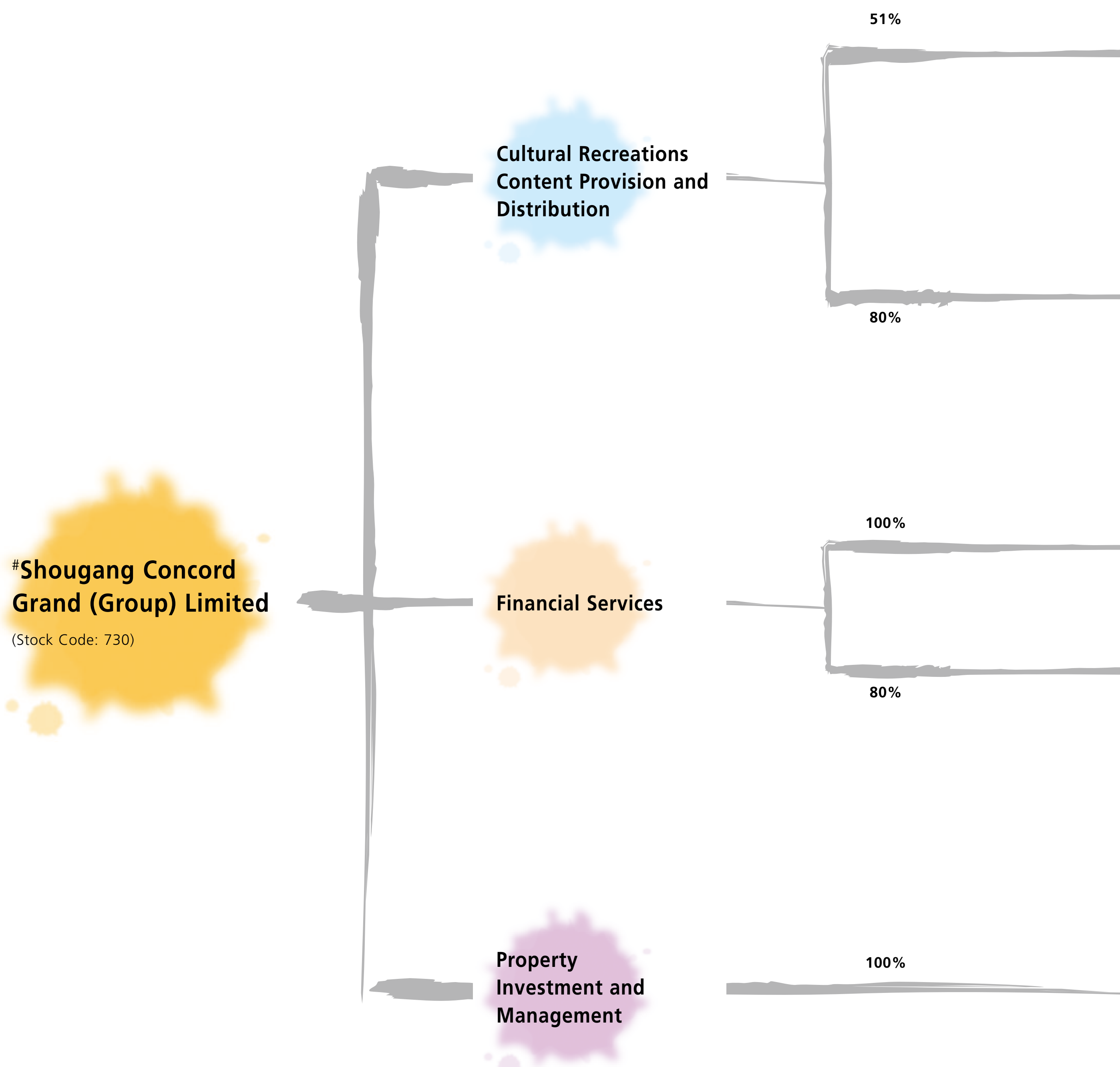
An engagement letter has been entered into with Ms. Zhou for a term of three years commencing on 1 January 2008. Under the engagement letter, Ms. Zhou will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Ms. Zhou will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Ms. Zhou. For the financial year ended 31 December 2008, the director's fee of Ms. Zhou is HK$240,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Ms. Zhou's experience and duties as well as the then prevailing market conditions.

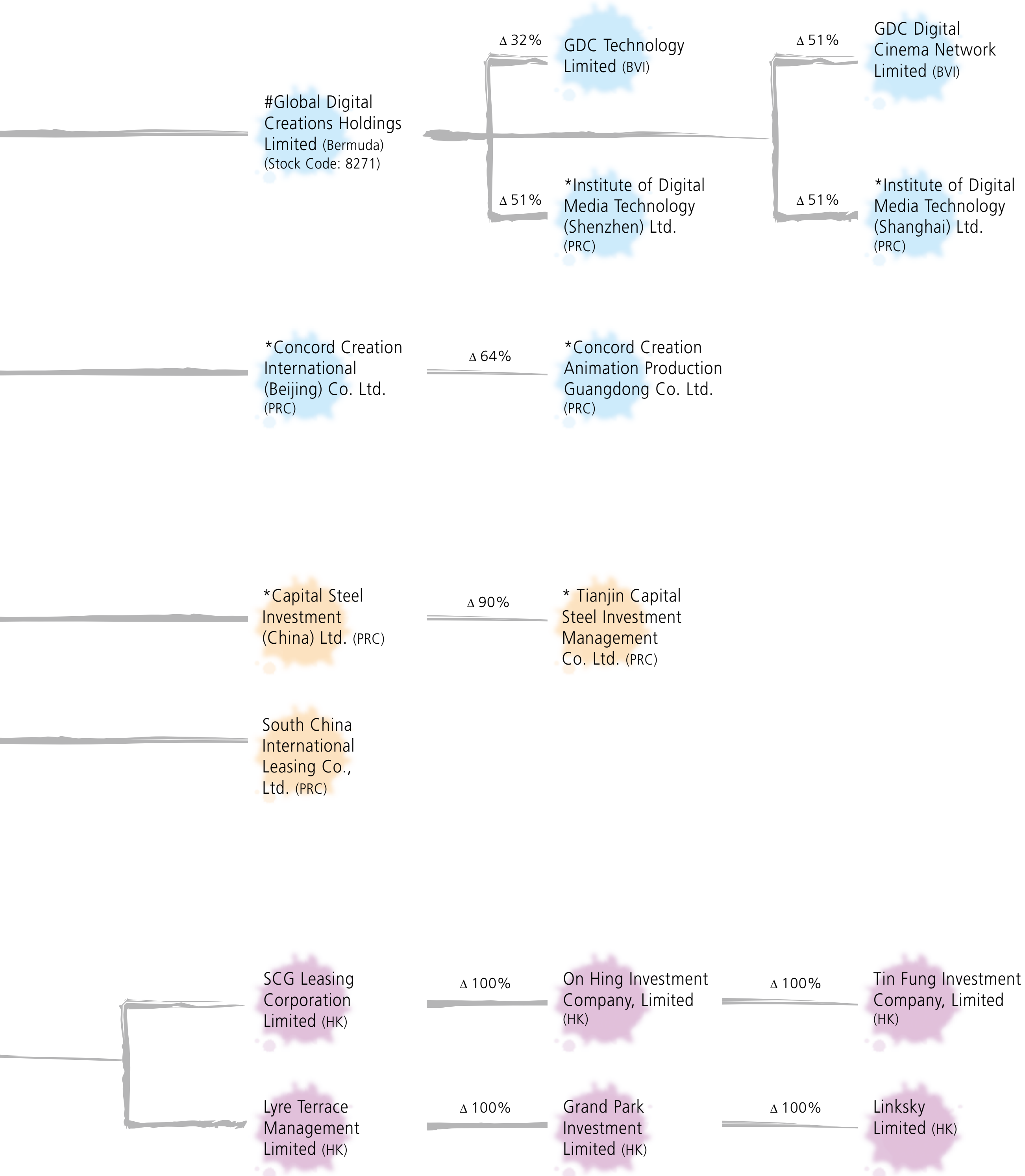
**Mr. Yip Kin Man, Raymond**, aged 62. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2007. He is also a member of each of the Audit, Nomination and Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Century. He is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.

An engagement letter has been entered into with Mr. Yip for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Yip will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Yip will be HK$240,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Yip. For the financial year ended 31 December 2008, the director's fee of Mr. Yip is HK$240,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

# MAIN OPERATIONAL STRUCTURE

*As at 31 December 2008*



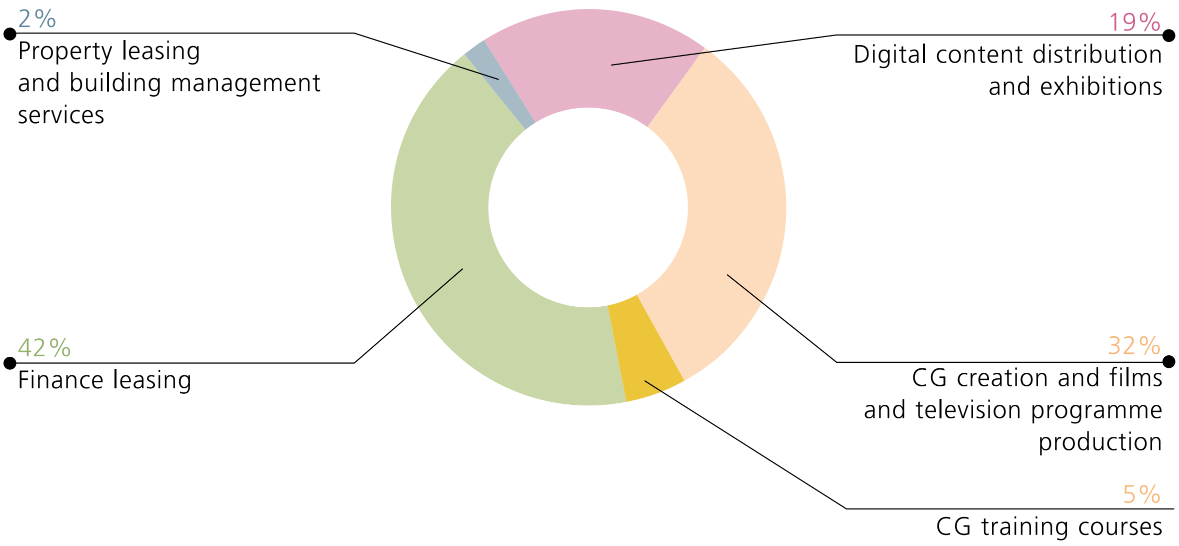



*Notes:*

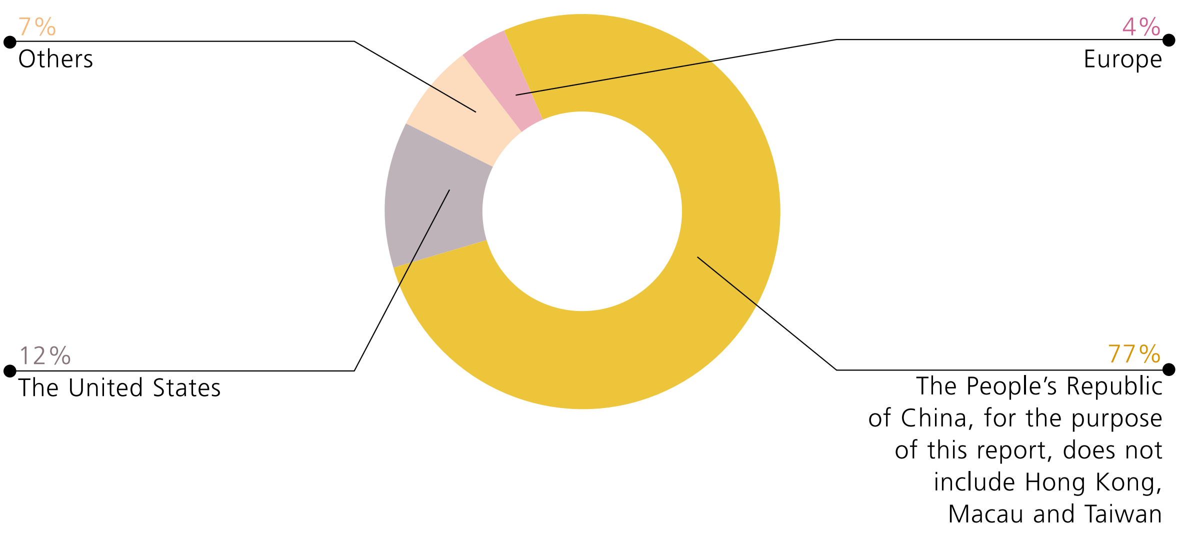
- \# Listed company
- * For identification purpose only
- Δ Attributable interest held by Shougang Concord Grand (Group) Limited

# FINANCIAL HIGHLIGHTS

## REVENUE BY PRINCIPAL ACTIVITY FOR THE YEAR 2008




## REVENUE BY GEOGRAPHICAL LOCATION FOR THE YEAR 2008



# CHAIRMAN'S STATEMENT

Year 2008 saw the global market conditions have entered the most severe downturn for several decades. The worldwide economic environment deteriorated progressively and the financial services sectors experiencing extraordinary fluctuation, due largely to the turbulence in the United States sub-prime mortgage market that began in late 2007. We were not immune from this turmoil. Especially in the cultural recreations content provision and distribution segment, lack of funding, shortage of liquidity and pressure on capital made banks and financial institutions under very great pressure, this credit crunch weakened our customers' funding availability or to engage in funding transactions on favourable terms, which resulted in delay in orders, especially in digital content distribution and exhibitions business and computer graphic ("CG") creation and production business.

The performance of digital content distribution and exhibitions business depends on two most important factors, namely Virtual Print Fees ("VPF") financing and direct orders from exhibitors. Because of this fierce financial crisis, the key VPF deployment entities in the United States and Europe and global exhibitors have postponed their plans for digitalisation. Fortunately, by the coming release of more than ten 3D titles in the year 2009 and foresee thereafter, demand for digital 3D cinema equipment increases, it is expected the deployment of digital cinemas worldwide, including ourselves for the Asian market, has yet to begin.

As for our cooperation with China Film Group Corporation ("CFGC") for the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), after having further considered that additional huge amount of capital input required to continue this project, the unfavourable conditions in present credit market and the loss since its deployment, we considered that it would be better to terminate the project with CFGC. Consequently, we disposed those installed equipment to them at proceeds of approximately RMB223.8 million (equivalent to approximately HK$254.2 million). This decision, in return, strengthens our cash-backing for the Group's further development in its existing businesses and our announced media advertising project in the PRC which is expected to sustain a healthy and stable growth rate and generate strong cash inflow in the coming years.


In CG creation and production business, due to several CG clients postponed the commencement of their production plans, less revenue was generated but was still able to generate a profit for the whole year 2008. It was mainly because of the broadened customer base in CG production service worldwide, improvement in cost control and production efficiency, and enhancement in service quality and reliability. Besides, we are highly recognised and achieved "preproved" stage by several leading studios and distributors in Hollywood and Europe. Our progress in CG business is also recognised by the PRC government, two honours of culture industrial bases in both Guangdong Province and Shenzhen Municipality were awarded this year. With existing CG orders on hand, the production capacity of this business has already been fully occupied until the fourth quarter of the year 2009.

Furthermore, we were actively engaged in co-production deals with worldwide leading studios this year to accumulate more intellectual property asset for upside earning potential. The success of this co-production of our second full feature length CGI film, "Little Happy Submarine", and the related animated television series globally made us obtaining more recognition in the industry. Simultaneously, it boosted up confidence from international production companies and encouraged them to work with us on production, distribution and other businesses. We will continue to develop the original content creation business through different forms, including sole investment and co-production, in order to generate more revenue and deliver better margins.

In the financial service provision segment, we have moved a great step during this year to cooperate with China Everbright Investment Management Corporation to develop finance and assets investment and management business in the PRC, which has good development potential in the PRC and is expected to generate a reasonable return to us.

For the finance leasing business in the PRC, although there may be some adjustments in short-term, economic growth of the PRC would continue and bloom once the global economy recover, this business would further expand accordingly. We announced on 21 August 2008 that the Group would acquire the remaining 20% equity interest in the registered capital of the subsidiary operated at this business for a consideration of RMB31,755,150 and considered that this acquisition would enable the Group to further develop this business and seize the opportunities presented in this business without the hindrances of the involvement of a minority shareholder. In the meantime, we would maintain and further improve its credit procedures for both existing and new finance leases in order to minimise the risk, if any. In order to ensure sustainable development, we are also fully aware of the importance of improving our service as well as our competitiveness in the market.

This hard time to digital media industry and financial service industry is a challenge, but also an opportunity. At present, we have plenty of cash and healthy operations, we would demonstrate our professional capabilities and dedications in each of our respective positions and the synergetic results were apparent, in order to overcome difficulties. We are confident that the Group is able to recover in the year 2009 as we are benefiting from high growth potential for our businesses and the expected economic growth of the PRC.

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

**Wang Qinghai**
*Chairman*

9 April 2009

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2008 was approximately HK$308,181,000 when compared with that of approximately HK$284,303,000 for the year 2007, represented an increase of approximately 8%. The increase was mainly attributable to consolidation of full year finance lease income of approximately HK$128,467,000 (2007: HK$16,771,000) during this year upon completion of the acquisition of further 30% effective interest in South China International Leasing Company Limited ("South China Leasing"), a subsidiary of the Company, in November 2007 and increase in films and television programme distribution income by approximately HK$38,993,000 to approximately HK$52,832,000 as a result of more television series being sold, netting off with decrease in sales of goods and revenue from contracts for computer graphic ("CG") creation and production by approximately HK$128,731,000 and HK$8,758,000, respectively.

During this year, the Group's sales of digital cinema equipment amounted to approximately HK$51,984,000, decreased by approximately 71%. However, excluding the sales of digital cinema equipment for deployment of digital cinema network in the the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) co-operated by China Film Group Corporation ("CFGC") and the Group (the "PRC Digital Cinema Project") in exchange for intangible asset for the year 2007 of HK$132,912,000, the sales increased by approximately HK$4,181,000 or approximately 9%, which was mainly due to more orders received for digital 3D cinema equipment during this year from exhibitors in the PRC and rest of Asia for the screening of a Hollywood 3D blockbuster, "Journey to the Center of the Earth". The Group's revenue from contracts for CG creation and production amounted to approximately HK$42,542,000, decreased by approximately 17% comparing with that for the year 2007, as a result of postponement of CG production by several CG clients during the first half of this year.

Cost of sales for the year ended 31 December 2008 amounted to approximately HK$262,550,000 which, comparing with that of approximately HK$193,371,000 for the year 2007, represented an increase of approximately 36%. The increase was mainly due to consolidation of full year cost of the finance leasing division of approximately HK$105,166,000 during this year upon completion of the acquisition of further 30% effective interest in South China Leasing in November 2007 and amortisation of intangible asset for the PRC Digital Cinema Project of approximately HK$28,491,000.

## FINANCIAL OVERVIEW (continued)

The Group made a gross profit of approximately HK$45,631,000 for the year ended 31 December 2008, representing a gross profit margin of approximately 15%. Excluding royalty income from share of box office receipts and the mentioned amortisation of intangible asset from the PRC Digital Cinema Project, such adjusted gross profit margin for this year was approximately 23%. Comparing with the gross profit margin of approximately 32% for the year 2007, the decrease was mainly due to the finance leasing division was operated at a relatively lower margin of approximately 18%.

Other income for the year ended 31 December 2008 amounted to approximately HK$12,035,000 (2007: HK$23,369,000), representing a decrease of approximately 49%. The decrease was mainly due to the amount for the year 2007 included a 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, and decrease in interest income by approximately HK$8,894,000 during this year.

Administrative expenses for the year ended 31 December 2008 amounted to approximately HK$128,233,000 (2007: HK$156,036,000), representing a decrease of approximately 18%. However, excluding the recognition of equity-settled share-based payments of approximately HK$10,869,000 (2007: HK$72,351,000) for the share options granted during this year, administrative expenses increased by approximately 40%, which was mainly attributable to recognition of impairment loss in respect of goodwill of approximately HK$10,397,000, consolidation of full year administrative expenses of the finance leasing division and growth in operations of other divisions of the Group.

Other expense of approximately HK$22,202,000 (2007: Nil) for the year ended 31 December 2008 represented a one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC.

The discount on acquisition of additional interest in a subsidiary for the year ended 31 December 2007 of approximately HK$1,342,000 represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, over the cost of the subscription of 53,388,178 new shares of GDC Technology at HK$2 per share in November 2007.

## FINANCIAL OVERVIEW (continued)

Gain on disposal and dilution of interests in subsidiaries of approximately HK$375,680,000 for the year ended 31 December 2007 included (i) approximately HK$335,550,000 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 378,000,000 new shares in total by GDC through completion of one subscription and three top-up placing and subscriptions and exercise of its share options during that year and disposal of approximately 44,106,000 shares of GDC by the Group; (ii) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (equivalent to approximately HK$50,570,000) in January 2007; and (iii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during that year.

Gain on disposal of interest in a jointly controlled entity of approximately HK$61,039,000 for the year ended 31 December 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$119,446,000 for the year ended 31 December 2008 attributable to equity holders of the Company, when compared with that profit of approximately HK$425,661,000 for the year 2007.

## BUSINESS REVIEW AND OUTLOOK

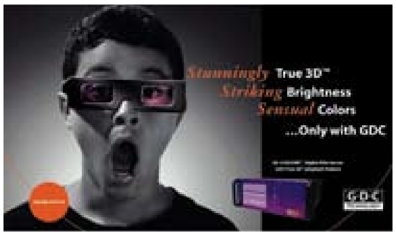
### Cultural Recreations Content Provision and Distribution


*Digital content distribution and exhibitions*

In late September 2008, several Hollywood studios finally signed the long-sought Virtual Print Fees ("VPF") deals with the major exhibitors in the United States for 20,000 digital cinema screens. Together with the new VPF deal signed by a NASDAQ listed company, which is the largest (VPF based) digital cinema deployment entity, with five Hollywood studios for the second phase of deployment of another 10,000 digital cinema screens in the United States, and the VPF deal signed by a leading digital cinema service company in Europe with six Hollywood studios for the deployment of 8,000 digital cinema screens there, it is expected the deployment of digital cinemas has yet to begin.

## BUSINESS REVIEW AND OUTLOOK (continued)

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




*Digital content distribution and exhibitions (continued)*

In anticipation of the imminent digital cinema transition in the United States, the Group signed with two largest cinema service providers to expand its servicing network throughout the United States. Both of the service providers are industry heavy weight and their support will go a long way to help the Group build a trusted servicing network for its customers in the United States. The Group has also been awarded authorised vendor status by Cinema Buying Group of the United States, a buying program for independent theaters and has over 600 members made up of small to medium-sized independent theaters representing over 8,000 screens in North America. Besides, the Group's digital cinema server has been included in the approved digital equipment list of the largest (VPF based) digital cinema deployment entity for its "Second Phase" deployment program over the next three years.

In Asia, the Group has reached separate non-exclusive VPF agreements with four Hollywood studios for digital cinema deployment across Asia, of which these studios are committed to supply Asian exhibitors with feature film content digitally, as well as to make financial contributions towards the hardware cost of Digital Cinema Initiative ("DCI") compliant digital cinema equipment deployed. This milestone signals the Group's on-going commitment to Asian exhibitors as a trusted partner in digital conversion.

To capture the potential opportunities, the Group successfully strengthened its production facilities in Shenzhen and Hong Kong in preparation of mass production of its products. The Group also continuously improved its production quality, its production facility in Shenzhen achieved ISO 9001:2000 certification.

On the other hand, the Group entered into an agreement to make available to a group, which is engaged in operation and sale of advertisement airtime for a television channel of Guangdong Television Station, a loan facility in the maximum principal amount of RMB100 million (equivalent to approximately HK$113.6 million) and acquisition of the exclusive rights and options to subscribe for an aggregate of up to 60% of that group. The Group considered that this provided an opportunity for the Group to extend its business to media advertising in the PRC, which is expected to sustain a healthy and stable growth rate and generate stable cash inflow in the coming years.

For the PRC Digital Cinema Project, after having further considered that additional substantial amount of capital would be needed to continue the project, prevailing conditions in the credit market and loss since its deployment of the digital cinema equipment, the Group considered that it would be more appropriate to terminate the cooperation with CFGC and dispose the installed equipment to them. On 9 January 2009, the Group entered into an agreement with CFGC to dispose the equipment for a consideration of approximately RMB223.8 million (equivalent to approximately HK$254.2 million), of which RMB100 million (equivalent to approximately HK$113.6 million) has been received. The net proceeds received and to be received would provide funding for the Group's development in its existing business divisions and the media advertising business in the PRC.

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

### **Cultural Recreations Content Provision and Distribution** (continued)


*CG creation and films and television programme production*

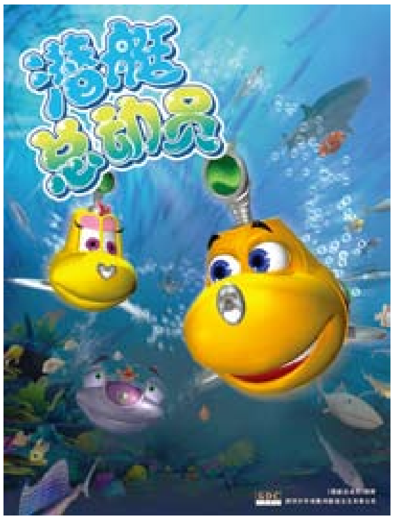
Due to the slow down of global economy since late 2007, several clients for CG creation and production postponed the commencement of their production plans, it resulted in lower revenue from contracts for CG creation and production during this year. Most of these CG projects did eventually commenced near the end of second quarter of this year and despite the global economy downturn, CG creation and production was still profitable for the whole year 2008.

Besides, the Group is actively developing new clients and has secured several CG projects with some world leading entertainment brands for animated television series and theatrical movies. 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, the customer base of the Group has already expanded to North America, Europe and Australia. At present, based on CG orders on hand, the production capacity of CG creation and production is already fully occupied up to the fourth quarter of the year 2009.


To deal with the expected growth in CG orders, the Group established a subsidiary in Chongqing, its staff recruitment and installation of production facilities have been completed. The production capacity there was formed during the fourth quarter of this year and is expected to further develop and achieve the same level of CG production as the production in Shenzhen.

## BUSINESS REVIEW AND OUTLOOK (continued)

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




*CG creation and films and television programme production (continued)*

Following the success of the Group's second full-length feature CGI film, "Happy Little Submarines", a co-production with a Hollywood leading animation studio, the Group's co-produced animated television series, "Dive Olly Dive" was also released on China Central Television (CCTV) since September 2008. This film and television series generated revenue of over HK$3,000,000 for this year and received support from the local municipal government on the distribution and promotion. The television series has also been released on popular channels in the United States, France, Germany and Australia, and had received positive audience share and media responses. The success of this co-production globally made the Group won recognition in the industry and increased confidence from international production companies to work with the Group not only limited to production, but also extend to distribution and other business. 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 sale of derivatives, distribution and intellectual property sales in addition to the existing CG creation and production revenue.

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

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

## BUSINESS REVIEW AND OUTLOOK (continued)

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

*CG training*

CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. Through continued improvement in the management system and infrastructure, comprehensive training materials for different categories, including CG animation and games, and open new training courses, the Group maintained a leading position in the CG professional training domain in the PRC. This division recorded steady revenue growth of approximately 32% for the year ended 31 December 2008, comparing with that for 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, 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 tailors made some advanced courses for several companies in the different kinds of CG animation and game industries during this year to upgrade their employees in accordance with their positions, with an aim to enhance the production capacity of those companies.

Besides, the Group co-operates 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 Certificates" and to train up their practical production skills ready for the employment immediate after graduation.

In addition to the Group's training centres in Shanghai and Shenzhen and direct operation training sites in Chongqing and Wuxi, the Group plans to set up more direct operation training sites to further expand its training network throughout the PRC and increase market shares there. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network, and diversify its revenue stream.

## BUSINESS REVIEW AND OUTLOOK (continued)

### Financial Service Provision

*Financial investment*

Facing the dynamic market opportunities and economic environment in the PRC, merger and acquisition, reformation and restructuring are expected to be occurred in many different industries, the Group would proactively grasp the development opportunities by providing clients consultancy service or investing in high potential businesses, such as finance and assets investment and management, funds and trust.

Referring to announcements of the Company dated 12 June 2008 and 14 August 2008, and circular of the Company dated 3 September 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 90:10 joint venture company set up by the Group and a subsidiary of China Everbright in Tianjin entered into two agreements on 30 January 2009 with an independent third party pursuant to which the Group would acquire two non-performing loans and interests accrued thereon with aggregate carrying amounts of approximately RMB108 million (equivalent to approximately HK$122.7 million) for a total consideration of RMB28 million (equivalent to approximately HK$31.8 million), details of which are set out in the announcement of the Company dated 4 February 2009. In view of the good prospect of the borrowers in the distilling business in the PRC and sufficient collaterals placed over its acquisition costs, the Group considers that this acquisition can generate a reasonable return to the Group and is a good opportunity for the Group to establish a presence in the finance and assets investment and management business which has good development potential in the PRC.

*Finance leasing*

During the year ended 31 December 2008, the amount of contracts newly entered by the finance leasing division amounted to approximately HK$210.2 million, revenue and segment result from this division amounted to approximately HK$128.5 million and HK$20.4 million, respectively.

In view of the global economic downturn, the central government in the PRC introduced a number of measures to stimulate its economic growth, the economic growth of the PRC would continue despite some adjustments in short-term. In the meantime, the Group would maintain and further improve its credit procedures for both existing and new finance leases in order to minimise the risk, if any. As at 31 December 2008, all outstanding finance lease receivables due from the finance lease borrowers either had good credit quality according to past repayment history or adequate collateral has been held with estimated fair values in excess of the receivables.

## BUSINESS REVIEW AND OUTLOOK (continued)

### Financial Service Provision (continued)

*Finance leasing (continued)*

Once the global economy recover, economy of the PRC will bloom and the finance leasing business in the PRC will further expand, it is the intention of the Group to further develop the finance leasing business of South China Leasing. 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 approximately RMB31,800,000. The Group considered that this acquisition would enable the Group to increase its participation in this business and seize the opportunities presented in this business in the PRC without the hindrances of the involvement of a minority shareholder.

### Property Investment and Management

Under the shadow of the global financial turmoil, the property market in Hong Kong faced uncertainties during this year, property leasing and building management fee income for the year ended 31 December 2008 decreased by approximately 11% and the resalable value of the Group's investment properties have also been declined comparing with the year 2007. However, the Group still received 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 31 December 2008, the Group had bank balances and cash of approximately HK$195.4 million (2007: HK$463.6 million), restricted bank deposits of approximately HK$66.1 million (2007: HK$72.5 million) and pledged bank deposits of approximately HK$3.5 million (2007: HK$8.9 million) which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The decrease was mainly from advances paid for Guangdong television advertising project, acquisition of non-performing loans and interests and acquisition of additional 20% equity interest in South China Leasing in aggregate of approximately HK$126.5 million, increase in entrusted loan receivables of approximately HK$52.4 million, capital contribution to an associate of approximately HK$21.1 million and net repayment of borrowings of approximately HK$144.0 million.

As at 31 December 2008, the Group's borrowings amounted to approximately HK$1,357.3 million, of which approximately HK$427.0 million were repayable within twelve months from 31 December 2008 and approximately HK$930.3 million were repayable after twelve months from 31 December 2008. All loans bore interest at market rates.

As at 31 December 2008, gearing ratio (calculated as borrowings net of bank balances and cash, restricted bank deposits and pledged bank deposits divided by total equity) was approximately 125% (2007: 90%). As at 31 December 2008, the Group had current ratio of approximately 160% (2007: 212%) based on current assets of approximately HK$860.3 million and current liabilities of approximately HK$539.2 million. The Group's leverage decreased was mainly attributable to loss for the year, advances paid, increase in entrusted loan receivables, capital contribution to an associate and net repayment of borrowings.

## CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK$551.6 million as at 31 December 2008 (2007: HK$635.8 million). The decrease was mainly due to loss for the year ended 31 December 2008 attributable to equity holders of the Company of approximately HK$119.4 million, netting off with the exchange differences on translation of foreign operations of approximately HK$23.4 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 an associate and advance paid for acquisition of additional 20% equity interest in South China Leasing as mentioned in notes 24 and 26 to the consolidated financial statements, respectively, the Group had no material acquisitions, disposals and significant investment during the year ended 31 December 2008.

## CHARGE ON ASSETS

As at 31 December 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$156.4 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$171.2 million.

(ii) The Group's finance lease receivables with a carrying value of approximately HK$1,258.9 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$1,186.1 million.

(iii) There were bank deposits of approximately HK$66.1 million restricted for the repayment of bank borrowings, which will be released upon full settlement of the relevant bank borrowings.

(iv) The Group pledged deposits amounted to approximately HK$3.5 million to banks to secure a purchase of raw materials agreement and a construction agreement entered into with independent third parties. The pledged bank deposits will be released upon the settlement of the relevant agreements.

## 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 31 December 2008, the Group has no significant exposure under foreign exchange.

## CONTINGENT LIABILITIES

Saved as disclosed in note 44 to the consolidated financial statements about litigations proceeding, the Group had no significant contingent liabilities as at 31 December 2008.

## EMPLOYEES

As at 31 December 2008, the Group employed 699 (2007: 492) full time employees (excluding those under the payroll of associates 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 year ended 31 December 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.

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 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 of the Company ("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 of Directors of the Company 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.

## BOARD OF DIRECTORS

### Composition

The Board currently comprises four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing 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.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

### Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management 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 OF DIRECTORS (continued)

### Board meetings

The Board has four scheduled meetings 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.

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/ committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

## **BOARD OF DIRECTORS** (continued)

### Attendance records

During the financial year ended 31 December 2008, the Directors have 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 interim results and annual results of the Group.

Details of Directors' attendance records in 2008 are as follows:

| | **Meetings attended/Eligible to attend** |
|---|---|
| *Chairman* | |
| Wang Qinghai | 0/5 |
| | |
| *Executive Directors* | |
| Cao Zhong | 5/5 |
| Chen Zheng | 3/5 |
| Wang Tian | 4/5 |
| Yuan Wenxin | 4/5 |
| | |
| *Non-executive Director* | |
| Leung Shun Sang, Tony | 5/5 |
| | |
| *Independent Non-executive Directors* | |
| Tam King Ching, Kenny | |
| Zhou Jianhong | 5/5 |
| Yip Kin Man, Raymond | 5/5 |
| | 5/5 |

### Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

## BOARD OF DIRECTORS (continued)

### 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 so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following 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, except for the Chairman and the Managing Director, subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

### Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

### Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Cao Zhong serves as the Vice Chairman and the Managing Director of the Company. The Chairman provides leadership for the Board and the Vice Chairman assists the Chairman to discharge his duties. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

## CHAIRMAN AND MANAGING DIRECTOR (continued)

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

## BOARD COMMITTEE

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

### Executive Committee

An Executive Committee of the Board was established in September 2005 and comprises all Executive Directors of the Company.

As at 31 December 2008, the members of the Executive Committee were as follows:

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

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. During the year, twelve meetings of the Executive Committee were held.

### Audit Committee

An Audit Committee of the Board has been established with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

## BOARD COMMITTEE (continued)

### Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside 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 comprised three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:

| | **Meetings attended/Eligible to attend** |
|---|---|
| Tam King Ching, Kenny *(Chairman)* | 2/2 |
| Zhou Jianhong | 2/2 |
| Yip Kin Man, Raymond | 2/2 |

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2007; and
- reviewing the interim results of the Group for the six months ended 30 June 2008.

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

### Nomination Committee

A Nomination Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

## BOARD COMMITTEE (continued)

### Nomination Committee (continued)

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:

| | **Meetings attended/Eligible to attend** |
|---|---|
| Cao Zhong *(Chairman)* | 1/1 |
| Leung Shun Sang, Tony *(Vice Chairman)* | 1/1 |
| Tam King Ching, Kenny | 1/1 |
| Zhou Jianhong | 1/1 |
| Yip Kin Man, Raymond | 1/1 |

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for reviewing the structure of the Board.

### Remuneration Committee

A Remuneration Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;

## BOARD COMMITTEE (continued)

### Remuneration Committee (continued)

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

- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The members of the Remuneration Committee during the year and their attendance were as follows:

| | **Meetings attended/Eligible to attend** |
|---|---|
| Leung Shun Sang, Tony *(Chairman)* | 2/2 |
| Cao Zhong *(Vice Chairman)* | 2/2 |
| Tam King Ching, Kenny | 2/2 |
| Zhou Jianhong | 2/2 |
| Yip Kin Man, Raymond | 2/2 |

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, two meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration and terms of service contracts of the Executive Directors of the Company;

- determining the bonuses of the Executive Directors of the Company for the years 2007 and 2008;

- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2008 and 2009; and

## BOARD COMMITTEE (continued)

**Remuneration Committee** (continued)

- making recommendations to the Board on the grant of options to the Directors of the Company.

## INTERNAL CONTROL

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

The Board is responsible for overall ensuring, 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 organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the senior 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.

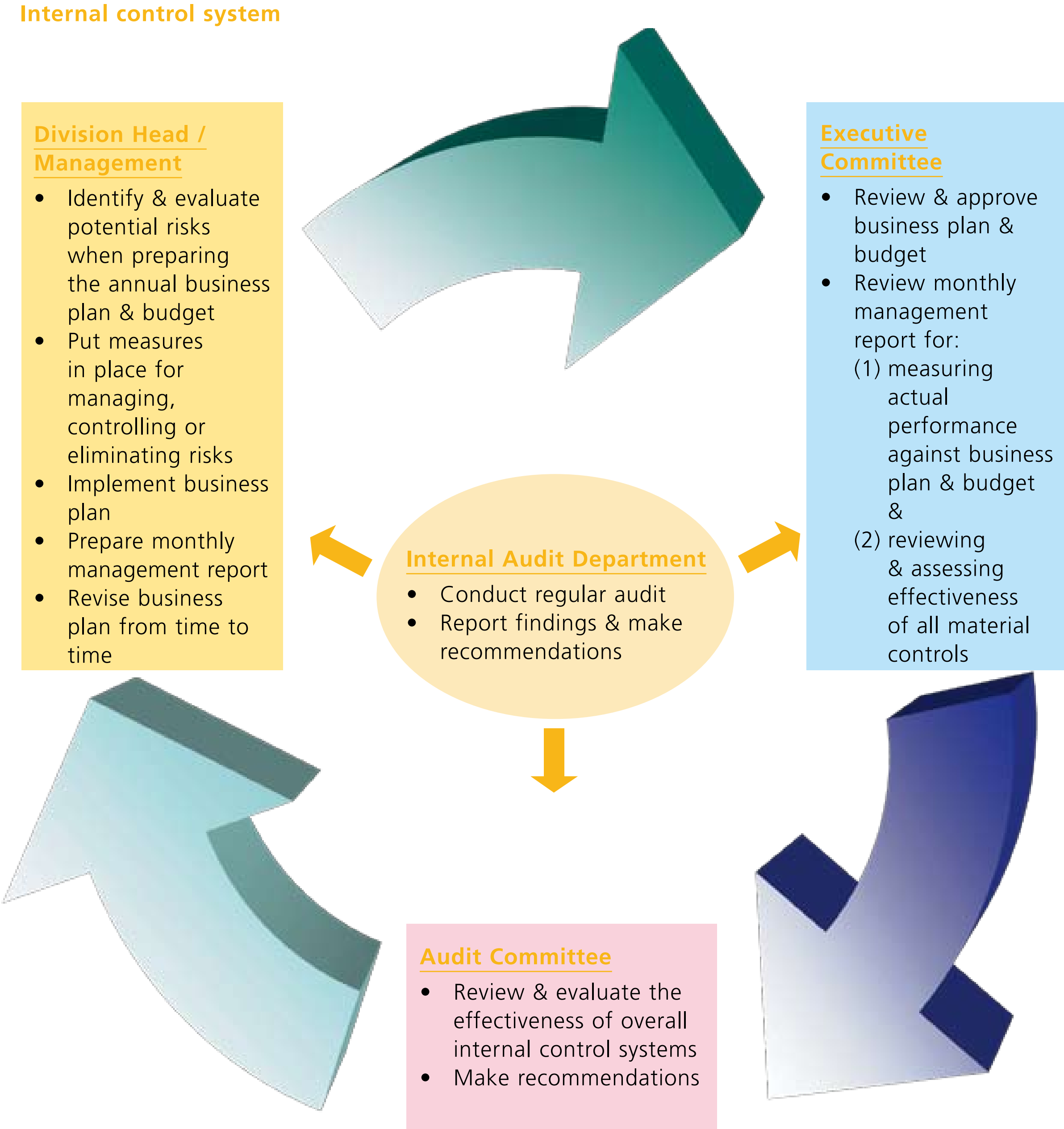
The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

## INTERNAL CONTROL (continued)

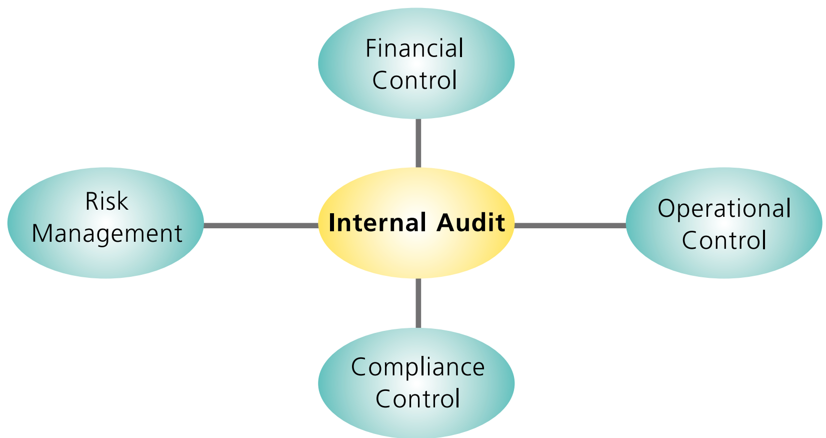
The Company has set up an Internal Audit Department which assists the Executive Committee and the Audit Committee to discharge its duties in this aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Executive Committee and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

**Internal control system**



## INTERNAL CONTROL (continued)

### Internal audit functions




The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, 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. Each of the division heads of the Group has submitted a Representation Letter to the Audit Committee, in which he/she made representations as to the compliance by themselves and their subordinates of key internal control systems for the year ended 31 December 2008. The requirement for making Representation Letters by the key management can strengthen individual responsibility for corporate governance and controls.

To comply with the new code provision C.2.2 of the Code which became effective on 1 January 2009, the Board will include the 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 since 2009.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2008.

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

## AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

| **Services rendered** | **Fee paid/payable** |
| --- | --- |
| | *HK$'000* |
| Statutory audit services | 2,281 |
| Non-statutory audit services: | |
| Review on interim financial report | 867 |
| Special audit services | 1,027 |
| | 4,175 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 62 to 63 of this annual report.

## COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-grand.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

During the year, separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors.

During the year, details of the poll voting procedures and rights of shareholders to demand a poll were included in the Company's circulars convening a general meeting. The chairman of a general meeting also explained the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll was demanded) revealed how many proxies for and against had been filed in respect of each resolution. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

To comply with the revised Listing Rules which became effective on 1 January 2009, all notices of general meetings despatched by the Company to its shareholders for meetings held on or after 1 January 2009 shall be 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 shall be by way of a poll.

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 50 and 24 to the consolidated financial statements respectively.

## RESULTS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 64 to 162 of this annual report.

The Board of Directors of the Company does not recommend the payment of any dividend in respect of the year (2007: Nil).

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 165 to 166 of this annual report.

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 20 to the consolidated financial statements.

Particulars of the major investment properties of the Group as at the balance sheet date are set out on pages 163 to 164 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 major properties of the Group as at the balance sheet date are set out on page 164 of this annual report.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 40 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 67 to 68 of this annual report.

## DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$795,000.

## DIRECTORS

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

Wang Qinghai
Cao Zhong
Chen Zheng
Wang Tian
Yuan Wenxin
Leung Shun Sang, Tony
Tam King Ching, Kenny*
Zhou Jianhong*
Yip Kin Man, Raymond*

* *Independent Non-executive Directors*

In accordance with clause 99(A) of the Company's bye-laws, Mr. Yuan Wenxin and Mr. Tam King Ching, Kenny will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In order to comply with the second part of code provision A.4.2 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), Mr. Wang Qinghai, being the Company's Chairman, will retire voluntarily and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS' SERVICE CONTRACTS

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.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

The Directors of the Company who held office at 31 December 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")) at the balance sheet date 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 Listing Rules:

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

| | | Number of shares/underlying shares held in the Company | | | Total interests as to % to the issued share capital of the Company as at 31.12.2008 |
|---|---|---|---|---|---|
| **Name of Director** | **Capacity in which interests are held** | **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 Option Schemes" below.*

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

### (b) Long positions in the shares and underlying shares of 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: Interests in shares | Interests under equity derivatives* | Total interests | Total interests as to % to the issued share capital of GDC as at 31.12.2008 |
|---|---|---|---|---|---|
| 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 | 10,008,200 | 4,900,000 | 14,908,200 | 1.15% |
| 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 Option Schemes" below.*

### (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: Interests in shares | Interests under equity derivatives* | Total interests | Total interests as to % to the issued share capital of GDC Tech as at 31.12.2008 |
|---|---|---|---|---|---|
| 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 Option Schemes" below.*

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

Save as disclosed above, at the balance sheet date, 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

| Name of Director | Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|---|---|---|---|
| Wang Qinghai | Shougang Corporation# | Property investment | Director |
| Cao Zhong | China Shougang International Trade and Engineering Corporation# | Property investment | Director |
| | Shougang Holding (Hong Kong) Limited# ("Shougang Holding") | Property investment | Director |

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

The Board of Directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

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

At the balance sheet date, 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 31.12.2008 | *Note(s)* |
|---|---|---|---|---|
| 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)

### Long positions in the shares of the Company (continued)

*Notes:*

1. Shougang Holding indicated in its disclosure form dated 28 September 2007 (being the latest disclosure form filed up to 31 December 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 31 December 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, at the balance sheet date, 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 of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

## SHARE OPTION SCHEMES

### (a) Share option scheme 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.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the Directors may, at their discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 113,548,679 which represents approximately 9.86% 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 115,139,246, representing approximately 10% of the issued share capital of the Company as at the date of this annual report. 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 shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

## SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

The period during which a share option may be exercised will be determined by the Directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

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

## SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

No share option was cancelled in accordance with the terms of the Scheme during the year. Details of movements in the share options under the Scheme during the year are as follows:

| Category or name of grantees | Options to subscribe for shares of the Company: At the beginning of the year | Granted during the year[1] | Exercised during the year[2] | Lapsed during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| **Directors of the Company** | | | | | | | | |
| 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 OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

| Category or name of grantees | At the beginning of the year | Granted during the year[1] | Exercised during the year[2] | Lapsed during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| | Options to subscribe for shares of the Company | | | | | | | |
| 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 | | | |
| **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[3] | – | (40,000,000)[3] | – | 22.01.2008 | 01.07.2008 – 30.06.2018 | HK$0.724 |
| | 9,530,000 | 40,000,000 | (1,000,000) | (40,000,000) | 8,530,000 | | | |
| | 72,598,679 | 81,950,000 | (1,000,000) | (40,000,000) | 113,548,679 | | | |

## SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

*Notes:*

1. (a) 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.

   (b) The details of the value of the share options granted during the year are set out in note 46 to the consolidated financial statements.

2. 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.

3. 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 on 1 July 2008.

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

GDC, a non wholly-owned subsidiary of the Company which is listed on the Growth Enterprise Market of the Stock Exchange ("GEM"), has adopted the GDC Scheme by a shareholders' resolution passed at its special general meeting held on 18 July 2003.

The purpose of the GDC Scheme is to enable GDC to grant share options to eligible participants as rewards for their contributions to GDC and its subsidiaries (the "GDC Group"). The GDC 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 GDC first commenced on the GEM, to 3 August 2013.

Under the GDC Scheme, the directors of GDC 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 GDC Group and any advisors (professionals or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the GDC Group who the directors of GDC consider, in their sole discretion, have contributed or contribute to the GDC Group, share options to subscribe for shares of GDC.

## SHARE OPTION SCHEMES (continued)

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

The total number of shares of GDC which may be issued upon exercise of all outstanding share options granted under the GDC Scheme is 54,432,020 which represents approximately 4.20% of the issued share capital of GDC as at the date of this annual report. The maximum number of shares of GDC available for issue upon exercise of all share options which may be granted under the GDC Scheme is 81,909,550, representing approximately 6.32% of the issued share capital of GDC as at the date of this annual report. The total number of shares of GDC issued and to be issued upon the exercise of share options granted under the GDC Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meetings. Share options granted to a director, chief executive, management shareholder or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC 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 GDC at the date of each offer), within any 12-month period, are subject to approval of the shareholders of GDC and the Company in advance in general meetings.

The period during which a share option may be exercised will be determined by the directors of GDC at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of GDC 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 GDC 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 GDC 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 GDC Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

## SHARE OPTION SCHEMES (continued)

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

No share option was granted, exercised or cancelled in accordance with the terms of the GDC Scheme during the year. Details of movements in the share options under the GDC Scheme during the year are as follows:

| | Options to subscribe for shares of GDC | | | | | |
|---|---|---|---|---|---|---|
| Category or name of grantees | At the beginning of the year | Lapsed during the year[1] | At the end of the year | Date of grant | Exercise period | Exercise price per share |
| **Directors of the Company** | | | | | | |
| Cao Zhong | 4,900,000 | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Chen Zheng | 4,900,000 | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| Leung Shun Sang, Tony | 4,900,000 | – | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| | 14,700,000 | – | 14,700,000 | | | |
| **Employees of the Group** | 9,708,200 | – | 9,708,200 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK$0.30 |
| | 2,300,000 | – | 2,300,000 | 22.03.2007 | 22.03.2007 – 21.03.2010 | HK$1.07 |
| | 3,323,000 | – | 3,323,000 | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK$1.52 |
| | 21,900,000 | – | 21,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| | 37,231,200 | – | 37,231,200 | | | |
| **Other participants** | 1,601,640 | (800,820) | 800,820 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK$0.30 |
| | 720,000 | – | 720,000 | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK$1.52 |
| | 1,470,000 | (490,000) | 980,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 |
| | 3,791,640 | (1,290,820) | 2,500,820 | | | |
| | 55,722,840 | (1,290,820) | 54,432,020 | | | |

*Note:*

1. The share options were held by a grantee who resigned as a director of GDC during the year and such share options were lapsed on 1 December 2008.

## SHARE OPTION SCHEMES (continued)

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

Each of the Company and GDC has adopted the GDC Tech Scheme by a shareholders' resolution passed at its special general meeting held on 19 September 2006.

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

Under the GDC Tech Scheme, the directors of GDC Tech may, at their discretion, offer any full-time or part-time employees, executives, officers and directors (including non-executive directors and independent non-executive directors) of the GDC Tech Group and any advisors, consultants, suppliers, customers and agents to the GDC Tech Group and such other persons who the directors of GDC Tech consider, in their sole discretion, will contribute or have contributed to the GDC Tech Group, share options to subscribe for shares of GDC Tech.

The total number of shares of GDC Tech which may be issued upon exercise of all outstanding share options granted under the GDC Tech Scheme is 23,339,998 which represents approximately 10.03% of the issued share capital of GDC Tech as at the date of this annual report. The maximum number of shares of GDC Tech available for issue upon exercise of all share options which may be granted under the GDC Tech Scheme is 9,023,024, representing approximately 3.88% of the issued share capital of GDC Tech as at the date of this annual report. The total number of shares of GDC Tech issued and to be issued upon the exercise of share options granted under the GDC Tech Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC Tech as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and/or the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC Tech in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of GDC and/or the Company in advance in general meetings.

## SHARE OPTION SCHEMES (continued)

### (c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

The period during which a share option may be exercised will be determined by the directors of GDC Tech at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Tech Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC Tech are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC Tech at their absolute discretion and shall not be less than the nominal value of a share of GDC Tech and shall be subject to the approval of the board of directors of GDC or any committee duly constituted thereof. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the GDC Tech Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

No share option was granted, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the year. Details of movements in the share options under the GDC Tech Scheme during the year are as follows:

| | Options to subscribe for shares of GDC Tech | | | | | |
|---|---|---|---|---|---|---|
| Category or name of grantees | At the beginning of the year | Lapsed during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
| **Directors of the Company** | | | | | | |
| 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[1] | – | 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 | | | |
| **Other individual with options granted in excess of limit** | | | | | | |
| Lu Yi, Gloria | 12,000,000[2] | – | 12,000,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |

## SHARE OPTION SCHEMES (continued)

### (c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

| Category or name of grantees | Options to subscribe for shares of GDC Tech: At the beginning of the year | Lapsed during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
|---|---|---|---|---|---|---|
| **Employees of the Group** | 1,173,333 | (320,000)[3] | 853,333 | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK$0.145 |
| | 4,563,332 | (650,000)[4] | 3,913,332 | 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 | (970,000) | 6,416,665 | | | |
| **Other participants** | 495,000 | (165,000)[5] | 330,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK$2.000 |
| | 24,834,998 | (1,135,000) | 23,699,998 | | | |

*Notes:*

1. The number of share options grant 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 grant 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 year and such share options were lapsed on 1 November 2008.

4. The share options were held by four grantees who ceased to be employees of the Group during the year and such share options were lapsed on 28 June 2008, 1 October 2008, 1 November 2008 and 6 December 2008 respectively.

5. The share options were held by a director of GDC who resigned during the year and such share options were lapsed on 1 September 2008.

## 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.

## DISTRIBUTION RESERVES

At the balance sheet date, the Company had distributable reserves of approximately HK$106,634,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 39% of the revenue for the year and the largest customer included therein amounted to approximately 8%. Purchases from the Group's five largest suppliers accounted for approximately 44% of the cost of sales for the year. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The following connected transactions and continuing connected transactions were recorded during the year and up to the date of this annual report:

### (a) Connected transaction

On 20 August 2008, an agreement (the "Share Transfer Agreement") was entered into between Capital Steel Investment (China) Ltd. ("Capital Steel"), an indirectly wholly-owned subsidiary of the Company, and Shenzhen Jiayinda Investment Company Limited ("Shenzhen Jiayinda"). Pursuant to the Share Transfer Agreement, Shenzhen Jiayinda agreed to transfer its 20% equity interest in the registered capital of South China International Leasing Co., Ltd. ("South China Leasing") for a consideration of RMB31,755,150 (approximately HK$36,106,000), payable in cash as to RMB23,000,000 (approximately HK$26,151,000) as initial deposit within 7 days from the signing of the Share Transfer Agreement and as to RMB8,755,150 (approximately HK$9,955,000) within 7 days from the date of completion.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

### (a) Connected transaction (continued)

South China Leasing was a sino-foreign equity joint venture established in the People's Republic of China (the "PRC") which was 80% indirectly owned by the Company and 20% owned by Shenzhen Jiayinda. It was principally engaged in the provision of finance leasing, including the leasing of machinery, equipment, electrical equipment, meters, aircrafts, motor vehicles and the leasing of immovable properties in the PRC. Upon completion of the said acquisition, South China Leasing will become an indirect wholly-owned subsidiary of the Company. It would enable the Group to further develop the business of South China Leasing and seize the opportunities presented in the finance leasing market in the PRC without the hindrances of the involvement of a minority shareholder.

As at the date of the Share Transfer Agreement, Shenzhen Jiayinda was a substantial shareholder of South China Leasing, a non-wholly owned subsidiary of the Company. As such, Shenzhen Jiayinda was a connected person under the Listing Rules. The Share Transfer Agreement was approved by a written independent shareholders' approval on 20 August 2008 in accordance with Rule 14A.43 of the Listing Rules based on the recommendations of the independent committee of the Board and the independent financial adviser engaged by the Company in connection with the said acquisition. As at the date of this annual report, the share transfer is yet to be completed.

### (b) Continuing connected transactions

1. As stated in the announcement of the Company dated 3 January 2007, the following tenancy agreements were renewed:

   (i) a tenancy agreement dated 2 January 2007 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,412 square feet was leased by Winluck Properties Limited, an indirect wholly-owned subsidiary of Shougang Holding which in turn was a substantial shareholder of the Company, to Long Cosmos Investment Limited, an indirect wholly-owned subsidiary of the Company, for a term of three years commenced on 1 January 2007 at a monthly rental of HK$134,600 (exclusive of rates and other charges payable to independent third parties). This office premises was used by the Group as office. Such tenancy agreement was terminated on 16 January 2008; and

**(b) Continuing connected transactions** (continued)

(ii) a tenancy agreement dated 3 January 2007 whereby Flat 1612, Block Q, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of the Company, to Gold Regal Limited, a direct wholly-owned subsidiary of Shougang Concord Century Holdings Limited ("Shougang Century") which is an associate of Shougang Holding, for a term of three years commenced on 1 January 2007 at a monthly rental of HK$11,800 (exclusive of rates and other charges payable to independent third parties). This residential premises was used by the senior executive of Shougang Century as quarter.

2. As stated in the announcement of the Company dated 12 April 2007, a master supply agreement (the "Master Supply Agreement") was entered into between the Company and GDC Tech on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Tech agreed to supply the Company and/or its associates with digital cinema equipment and network management and other related equipment and services. The annual cap amounts of the transactions contemplated under the Master Supply Agreement for each of the period ended 31 December 2007 and the two financial years ending 31 December 2009 would not exceed US$103,000,000, US$104,500,000 and US$106,000,000, respectively. The purchases were for the purpose of deployment of digital cinema equipment. The Master Supply Agreement and the relevant cap amounts were approved by the independent shareholders of the Company and GDC on 6 June 2007, respectively.

   During the year, no transaction was entered into between the Company and/or its associates and GDC Tech under the Master Supply Agreement.

The continuing connected transactions as set out in 1 above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

(i) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

(ii) the transactions were conducted on normal commercial terms, or if there was no available comparison, on terms that were no less favourable than terms available to or from (as the case may be) independent third parties; and

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

### (b) Continuing connected transactions (continued)

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

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

As far as the transactions set out in note 49(a) to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in notes (i) and (ii) were continuing connected transactions which had been previously disclosed by way of announcement by the Company. The transactions as set out in notes (iii) to (v) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions set out in note 49(b) to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

The remaining transactions which took place during the year as set out under the heading of "Related Party Transactions" did not constitute connected transactions under the Listing Rules.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

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.

## CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 38 of this annual report.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 48 to the consolidated financial statements.

By Order of the Board
**Cao Zhong**
*Vice Chairman and Managing Director*

Hong Kong, 9 April 2009

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**
**德勤**

**TO THE MEMBERS OF SHOUGANG CONCORD GRAND (GROUP) LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Shougang Concord Grand (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 162, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

## AUDITOR'S RESPONSIBILITY (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's loss 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
9 April 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

| | NOTES | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **308,181** | 284,303 |
| Cost of sales | | **(262,550)** | (193,371) |
| Gross profit | | **45,631** | 90,932 |
| Interest income from entrusted loan receivables | | **3,674** | – |
| Other income | 9 | **12,035** | 23,369 |
| Distribution costs and selling expenses | | **(14,240)** | (5,553) |
| Administrative expenses | | **(128,233)** | (156,036) |
| (Decrease) increase in fair value of investment properties | | **(15,960)** | 31,130 |
| Changes in fair value of held-for-trading investments | | **(30,011)** | 23,713 |
| Finance costs | 10 | **(6,046)** | (4,873) |
| Share of results of associates | | **(857)** | 7,255 |
| Other expense | 11 | **(22,202)** | – |
| Discount on acquisition of additional interest in a subsidiary | 42(c) | **–** | 1,342 |
| Gain on disposal and dilution of interests in subsidiaries | 12 | **–** | 375,680 |
| Gain on disposal of interest in a jointly controlled entity | 13 | **–** | 61,039 |
| (Loss) profit before tax | | **(156,209)** | 447,998 |
| Income tax expense | 14 | **(1,540)** | (6,785) |
| (Loss) profit for the year | 15 | **(157,749)** | 441,213 |
| Attributable to: | | | |
| Equity holders of the Company | | **(119,446)** | 425,661 |
| Minority interests | | **(38,303)** | 15,552 |
| | | **(157,749)** | 441,213 |
| (Loss) earnings per share | 17 | | |
| Basic | | **(HK10.38 cents)** | HK37.19 cents |
| Diluted | | **N/A** | HK35.99 cents |

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **60,510** | 47,634 |
| Prepaid lease payments | 19 | **7,512** | 7,230 |
| Investment properties | 20 | **125,200** | 141,160 |
| Goodwill | 21 | **52,935** | 63,332 |
| Intangible asset | 23 | **244,111** | 221,545 |
| Interests in associates | 24 | **21,856** | 424 |
| Advances | 26 | **126,547** | – |
| Finance lease receivables | 27 | **827,138** | 1,029,469 |
| Entrusted loan receivables | 28 | **25,499** | – |
| Restricted bank deposits | 33 | **66,069** | 72,482 |
| Pledged bank deposit | 33 | **665** | – |
| Advance paid for acquisition of intangible asset | | **–** | 35,581 |
| | | **1,558,042** | 1,618,857 |
| **Current assets** | | | |
| Inventories | 29 | **21,904** | 25,781 |
| Production work in progress | 30 | **3,875** | 11,094 |
| Amounts due from customers for contract work | 31 | **16,935** | 1,494 |
| Finance lease receivables | 27 | **463,170** | 344,404 |
| Entrusted loan receivables | 28 | **26,879** | – |
| Trade receivables | 32 | **20,524** | 19,043 |
| Prepayments, deposits and other receivables | 33 | **22,957** | 42,259 |
| Prepaid lease payments | 19 | **156** | 147 |
| Amount due from an associate | 25(b) | **–** | 1,053 |
| Held-for-trading investments | 34 | **85,668** | 29,846 |
| Pledged bank deposits | 33 | **2,808** | 8,852 |
| Bank balances and cash | 33 | **195,381** | 463,561 |
| | | **860,257** | 947,534 |
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 31 | **1,763** | 1,440 |
| Trade payables | 35 | **8,117** | 5,146 |
| Other payables and accruals | | **53,492** | 44,848 |
| Income received in advance | 36 | **38,108** | 23,361 |
| Rental and management fee deposits received | | **1,189** | 1,044 |
| Amount due to a related party | 37 | **–** | 455 |
| Tax liabilities | | **9,506** | 8,291 |
| Borrowings | 38 | **427,048** | 362,267 |
| | | **539,223** | 446,852 |
| **Net current assets** | | **321,034** | 500,682 |
| **Total assets less current liabilities** | | **1,879,076** | 2,119,539 |

# CONSOLIDATED BALANCE SHEET

At 31 December 2008

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Income received in advance | 36 | **16,393** | 21,245 |
| Borrowings | 38 | **930,248** | 1,055,103 |
| Security deposits received | | **60,168** | 73,495 |
| Deferred tax liabilities | 39 | **1,093** | 1,340 |
| | | **1,007,902** | 1,151,183 |
| **Net assets** | | **871,174** | 968,356 |
| **Capital and reserves** | | | |
| Share capital | 40 | **11,514** | 11,504 |
| Reserves | | **540,130** | 624,310 |
| Equity attributable to equity holders of the Company | | **551,644** | 635,814 |
| Share options reserve of subsidiaries | | **54,603** | 55,249 |
| Minority interests | | **264,927** | 277,293 |
| **Total equity** | | **871,174** | 968,356 |

The consolidated financial statements on pages 64 to 162 were approved and authorised for issue by the Board of Directors on 9 April 2009 and are signed on its behalf by:

**CAO ZHONG**
*DIRECTOR*

**CHEN ZHENG**
*DIRECTOR*

| | Share capital HK$'000 | Share premium HK$'000 | Capital contribution reserve HK$'000 | Contributed surplus HK$'000 (Note (a)) | Translation reserve HK$'000 | Share options reserve HK$'000 | Special reserve HK$'000 (Note (b)) | (Accumulated losses) retained profits HK$'000 | Total HK$'000 | Share options reserve of subsidiaries HK$'000 | Minority interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 11,369 | 417,690 | 445 | 2,135 | 16,369 | – | – | (235,998) | 212,010 | 5,907 | 3,646 | 221,563 |
| Exchange differences on translation of associates/subsidiaries representing income recognised directly in equity | – | – | – | – | 12,502 | – | – | – | 12,502 | – | 3,968 | 16,470 |
| Profit for the year | – | – | – | – | – | – | – | 425,661 | 425,661 | – | 15,552 | 441,213 |
| 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 for the year | – | – | – | – | 1,133 | – | – | 425,661 | 426,794 | – | 19,520 | 446,314 |
| Recognition of share-based payments | – | – | – | – | – | 14,949 | – | – | 14,949 | 57,402 | – | 72,351 |
| Exercise of share options | 135 | 7,569 | – | – | – | (2,155) | – | – | 5,549 | – | – | 5,549 |
| Exercise of share options of subsidiaries | – | – | – | – | – | – | – | – | – | (8,052) | 33,986 | 25,934 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | 27,608 | 27,608 |
| Cancellation of share options granted by a subsidiary | – | – | – | – | – | – | – | 8 | 8 | (8) | – | – |
| Additional contribution from minority shareholders | – | – | – | – | – | – | – | – | – | – | 427,224 | 427,224 |
| Dilution of interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (268,781) | (268,781) |
| Partial disposal of interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | 1,539 | 1,539 |
| Additional investments in subsidiaries shared by minority shareholders of subsidiaries | – | – | – | – | – | – | (23,496) | – | (23,496) | – | 32,551 | 9,055 |
| At 31 December 2007 | 11,504 | 425,259 | 445 | 2,135 | 17,502 | 12,794 | (23,496) | 189,671 | 635,814 | 55,249 | 277,293 | 968,356 |
| Exchange differences on translation of associates/subsidiaries representing income recognised directly in equity | – | – | – | – | 23,351 | – | – | – | 23,351 | – | 11,117 | 34,468 |
| Loss for the year | – | – | – | – | – | – | – | (119,446) | (119,446) | – | (38,303) | (157,749) |
| Total recognised income and expense for the year | – | – | – | – | 23,351 | – | – | (119,446) | (96,095) | – | (27,186) | (123,281) |
| 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 (c)) | – | (425,259) | – | 425,259 | – | – | – | – | – | – | – | – |
| Elimination of accumulated losses (Note (c)) | – | – | – | (311,818) | – | – | – | 311,818 | – | – | – | – |
| Cancellation of share options granted by subsidiaries | – | – | – | – | – | – | – | 646 | 646 | (646) | – | – |
| Capital contribution from a minority shareholder | – | – | – | – | – | – | – | – | – | – | 14,820 | 14,820 |
| At 31 December 2008 | 11,514 | 559 | 445 | 115,576 | 40,853 | 23,504 | (23,496) | 382,689 | 551,644 | 54,603 | 264,927 | 871,174 |

Notes:

(a) The contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange, and the transfers as mentioned in note (c) below.

(b) Special reserve represented the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from minority shareholders during the year ended 31 December 2007 (see note 42(c)).

(c) 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.

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | **(156,209)** | 447,998 |
| Adjustments for: | | |
| Changes in fair value of held-for-trading investments | **30,011** | (23,713) |
| Amortisation of intangible asset | **28,491** | – |
| Decrease (increase) in fair value of investment properties | **15,960** | (31,130) |
| Share-based payments expenses | **10,869** | 72,351 |
| Impairment loss in respect of goodwill | **10,397** | – |
| Depreciation of property, plant and equipment | **7,857** | 2,433 |
| Allowance for bad and doubtful debts | **6,386** | 230 |
| Finance costs | **6,046** | 4,873 |
| Research and development costs | **2,843** | 4,432 |
| Allowance for inventories | **1,031** | – |
| Share of results of associates | **857** | (7,255) |
| Amortisation of prepaid lease payments | **161** | 99 |
| Loss on disposal of property, plant and equipment | **50** | 119 |
| Interest income | **(5,190)** | (14,084) |
| Interest income from entrusted loan receivables | **(3,674)** | – |
| Dividend income from held-for-trading investments | **(3,118)** | (144) |
| Gain on disposal of intangible asset | **(104)** | – |
| Discount on acquisition of additional interest in a subsidiary | **–** | (1,342) |
| Gain on disposal and dilution of interests in subsidiaries | **–** | (375,680) |
| Gain on disposal of interest in a jointly controlled entity | **–** | (61,039) |
| Operating cash flows before movements in working capital | **(47,336)** | 18,148 |
| Decrease (increase) in inventories | **4,043** | (14,330) |
| Decrease in production work in progress | **7,965** | 1,443 |
| (Increase) decrease in amounts due from customers for contract work | **(13,549)** | 168 |
| Decrease in finance lease receivables | **170,090** | 34,631 |
| Increase in trade receivables | **(7,314)** | (141,615) |
| Decrease (increase) in prepayments, deposits and other receivables | **20,985** | (8,301) |
| (Increase) decrease in held-for-trading investments | **(85,275)** | 8,567 |
| Increase in amounts due to customers for contract work | **338** | 227 |
| Increase in trade payables | **2,971** | 1,302 |
| Increase (decrease) in other payables and accruals | **7,707** | (18,528) |
| Increase in income received in advance | **8,172** | 3,334 |
| Increase in rental and management fee deposits received | **145** | 29 |
| (Decrease) increase in security deposits received | **(17,954)** | 1,604 |
| Cash generated from (used in) operations | **50,988** | (113,321) |
| Dividend received from held-for-trading investments | **3,118** | 144 |
| Income tax paid | **(848)** | (806) |
| Interest paid | **(6,046)** | (4,721) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | **47,212** | (118,704) |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

| | NOTE | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Advances paid | | **(126,547)** | – |
| Capital contribution to associates | | **(21,084)** | (17,503) |
| Increase in entrusted loan receivables | | **(52,378)** | – |
| Purchases of property, plant and equipment | | **(20,670)** | (15,132) |
| Expenditure on product development | | **(2,843)** | (4,432) |
| Acquisition of intangible asset | | **(548)** | (88,633) |
| Advance paid for acquisition of intangible asset | | **–** | (35,581) |
| Prepaid lease payments made | | **(87)** | (5,794) |
| Decrease in restricted bank deposits | | **10,976** | – |
| Decrease (increase) in pledged bank deposits | | **5,379** | (7,838) |
| Interest received | | **5,190** | 14,084 |
| Interest received from entrusted loan receivables | | **3,674** | – |
| Proceeds from disposal of intangible asset | | **1,250** | – |
| Repayment from associates | | **1,053** | 16,190 |
| Proceeds from disposal of interest in a jointly controlled entity | | **–** | 174,176 |
| Proceeds from disposal of partial interest in a subsidiary (net of expense) | | **–** | 68,308 |
| Acquisition of subsidiaries | 42(a) | **–** | 42,447 |
| Proceeds from disposal of property, plant and equipment | | **–** | 20 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | **(196,635)** | 140,312 |
| FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | **(440,820)** | (71,678) |
| Repayment to related parties | | **(455)** | (1,928) |
| New borrowings raised | | **296,773** | 13,898 |
| Capital contribution from a minority shareholder | | **14,820** | – |
| Issue of shares from exercise of share options | | **410** | 5,549 |
| Repayment to a fellow subsidiary | | **–** | (40,000) |
| Repayment of obligations under finance leases | | **–** | (1,973) |
| Repayment to a shareholder | | **–** | (512) |
| Proceeds from issue of shares by subsidiaries to minority shareholders, net of transaction costs of approximately HK$13,075,000 | | **–** | 467,519 |
| Proceeds from exercise of share options of subsidiaries | | **–** | 25,769 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | **(129,272)** | 396,644 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | **(278,695)** | 418,252 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **463,561** | 34,705 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **10,515** | 10,604 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | **195,381** | 463,561 |

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its controlling shareholder, which is defined under the Rules Governing the Listing of Securities on the Stock Exchange as a person who is entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of the issuer, is Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a company incorporated in Hong Kong with limited liability. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 50.

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 7 (Amendments) | Improving Disclosures about Financial Instruments[2] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives[4] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[5] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[6] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers[7] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The application 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 23 (Revised) will eliminate the option to expense all borrowing costs when incurred. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company (the "Directors") anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The 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 explained in the accounting policies set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Acquisition of additional interest in a subsidiary

Goodwill arising on acquisition of additional interest in a subsidiary represents the excess of the cost of the acquisition over the fair value of the net assets attributable to the additional interest in a subsidiary. If, after reassessment, the fair value of the net assets attributable to the additional interest in a subsidiary by the Group exceeds the cost of the acquisition, the excess is recognised immediately in profit and loss. The difference between the fair value and the carrying value of the underlying assets and liabilities attributable to the additional interest in a subsidiary is debited directly to special reserve.

### Goodwill

Goodwill arising on an acquisition of a subsidiary, for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, at the date of acquisition.

For previously capitalised goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit ("CGU") to which the goodwill relates may be impaired.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

Goodwill arising on an acquisition of a business, which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business, at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### Interests in associates

An associate is an entity over which the investor has significant influence and there is neither a subsidiary nor an interest in a joint venture.

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, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in associates (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 the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

On subsequent disposal of an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold and services provided in the ordinary course of business, net of returns, discounts and sales related taxes.

Interest income from the finance leasing business and other financial assets is accrued on a timely 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 finance lease business and other financial assets to that asset's net carrying amount.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Distribution income for films and television programme is recognised when the films and/or television programme are delivered to the customers.

Training fee income is recognised over the period of the training course on a straight-line basis. Unearned training fee income received is recorded as income received in advance.

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

Royalty income from share of box office receipts is recognised when the digital motion pictures are exhibited using the digital cinema equipment sold by the Group and the right to receive certain percentage of the relevant box office receipts has been established.

Receipts from exhibition of digital motion pictures are recognised when the motion pictures are exhibited.

Technical service income and management fee income are recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition** (continued)

*Subcontracting revenue from computer graphic ("CG") creation and production*

Where the outcome of a subcontracting contract of CG creation and production can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

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

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 balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

**Property, plant and equipment**

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes as well as self-constructed investment properties. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are 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. Gains or losses arising from changes in fair value of investment property are included in the consolidated income statement for the period in which they arise.

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 consolidated income statement in the year in which the item is derecognised.

An investment property is transferred at fair value to property, plant and equipment when the property begins to be occupied by the owner. Gain or loss arising from change in fair value of the investment property upon the transfer is included in the consolidated income statement.

### 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*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leasing** (continued)

*Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those which are classified and accounted as investment properties under the fair value model.

**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 its 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 each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

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 Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which a foreign operation is disposed of.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

### Borrowing costs

All borrowing costs are recognised as and included in finance cost in the consolidated income statement in the year in which they are incurred.

### Retirement benefits costs

Payments to the define contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such asset and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in the business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

### 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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Inventories

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

### Production work in progress

Production work in progress is stated at the lower of cost and net realisable value. Costs include all direct costs associated with the production of films or television programme. The cost associated with the production of films and programme would be transferred to inventories upon the completion of films or television programme.

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("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 the consolidated income statement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets*

The Group's financial assets are classified into one of the two categories: including held-for-trading investments and loans and receivables. 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.

Income is recognised on an effective interest basis for debt instruments.

***Held-for-trading investments***

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.

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement excludes any dividend or interest earned on the financial assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

*Financial assets (continued)*

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including entrusted loan receivables, trade receivables, other receivables, amount due from an associate, restricted bank deposits, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

***Impairment of financial assets***

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For those loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, finance lease receivables and entrusted loan 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 the consolidated income statement. When a trade receivable, finance lease receivable or entrusted loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

***Impairment of financial assets** (continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

***Financial liabilities***

Financial liabilities including trade payables, other payables, amount due to a related party and borrowings are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

### Equity settled share-based payment transactions

*Share options granted to the Directors and employees of the Group*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed, with a corresponding increase in equity (share options reserve). For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits or losses.

For share options granted on or before 7 November 2002 and share options granted after 7 November 2002 but vested before 1 January 2005, the Group did not recognise any financial effect of these share options in accordance with the transitional provisions of HKFRS 2.

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Equity settled share-based payment transactions** (continued)

*Share options granted to other participants*

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted.

**Impairment losses on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty (continued)

*Estimated impairment of intangible asset*

At 31 December 2008, the carrying amount of intangible asset was approximately HK$244,111,000 (2007: HK$221,545,000). In determining whether there is objective evidence of impairment loss, the Directors take into consideration the estimation of future cash flows to be generated from use of the intangible asset and fair value of the intangible asset less cost to sell. The amount of the impairment loss is measured as the difference between the asset's carrying amount and higher of the present value of estimated future cash flows discounted at a suitable discount rate or the fair value less cost to sell. Where the actual future cash flows or the net selling price are less than expected, an impairment loss may arise.

During the year ended 31 December 2008 and 2007, the Directors did not identify any impairment loss on the intangible asset.

*Provision for litigations*

The management of the Group monitor any litigation against the Group closely. Provision for litigations is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2008 and 2007, there is no foreseeable financial impact to the Group and no provision for litigations has been made. Details are set out in note 44.

*Estimated impairment of finance lease receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows and fair value of the pledged assets less cost to sell. The amount of the impairment loss is measured as the difference between the asset's carrying amount and higher of the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) or the fair value of the pledged assets less cost to sell. Where the actual future cash flows or the net selling price of the pledged assets are less than expected, a material impairment loss may arise.

As at 31 December 2008, the carrying amount of finance lease receivables is approximately HK$1,290,308,000 (2007: HK$1,373,873,000).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty (continued)

*Write-down of production work in progress*

The policy for write-down of production work in progress of the Group is based on the evaluation of the certainty in finalising the distribution/license agreements in the potential markets and on management's judgement. Where the net realisable value is less than the cost, a material impairment loss may arise. The management estimates the net realisable value for such production work in progress was approximately HK$3,875,000 as at 31 December 2008 (2007: HK$11,094,000). There was no write-down of production work in progress made for the year ended 31 December 2008 (2007: Nil).

## 5. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loan and receivables (including cash and cash equivalents) | **355,172** | 598,602 |
| Finance lease receivables | **1,290,308** | 1,373,873 |
| **Fair value through profit or loss** | | |
| Held-for-trading investments | **85,668** | 29,846 |
| **Financial liabilities** | | |
| Amortised cost | **1,457,025** | 1,519,371 |

### b. Financial risk management objectives and polices

The Group's major financial instruments include finance lease receivables, entrusted loan receivables, trade receivables, other receivables, restricted bank deposits, pledged bank deposits and bank balances, amount due from an associate, borrowings, trade payables and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## 5. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and polices (continued)

*Market risk*

***(i) Currency risk***

The normal operations and investments of the Group are mainly in Hong Kong and the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), with revenue and expenditure denominated in Hong Kong dollars, Renminbi and United States dollars which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposures. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures.

***(ii) Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to fixed-rate finance lease receivables for the year ended 31 December 2008 and 2007, certain entrusted loan receivables for the year ended 31 December 2008 and borrowings for the year ended 31 December 2007 (see note 38 for details of the borrowings).

The Group is exposed to cash flow interest rate risk in relation to variable-rate finance lease receivables, an entrusted loan receivable, bank balances and bank borrowings (see note 38 for details of the borrowings). It is the Group's policy to keep majority of its finance lease receivables, entrusted loan receivable and borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China Renminbi Lending Rate ("PBC Rate") arising from the Group's variable-rate finance lease receivables, entrusted loan receivables and borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

## 5. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and polices (continued)

*Market risk (continued)*

***(ii) Interest rate risk** (continued)*

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate finance lease receivables, entrusted loan receivables, borrowings and bank balances at the balance sheet date. The analysis is prepared assuming these outstanding balances at the balance sheet date was outstanding for the whole year. A 100 basis point (2007: 50 basis point) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. As a result of the volatile financial market, the management adjusted the sensitivity rate from 50 basis points to 100 basis points in current year for the purpose of analysing interest rate risk.

If interest rates had been 100 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2008 would increase/decrease by approximately HK$8,921,000 (2007: post-tax profit would decrease/increase by approximately HK$3,894,000).

The Group's sensitivity to interest rates has increased during the current year which is mainly due to change of sensitivity rate from 50 basis points to 100 basis points and increase in variable-rate entrusted loan receivables.

***(iii) Other price risk***

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments of entities operating in the PRC which are quoted in stock exchanges in the PRC and Hong Kong. In addition, the Group has appointed a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

## 5. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and polices (continued)

*Market risk (continued)*

***(iii) Other price risk** (continued)*

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 10% (2007: 5%) in the current year as a result of volatile financial market.

If the prices of the respective equity instruments had been 10% (2007: 5%) higher/lower, post-tax loss the year ended 31 December 2008 would decrease/increase by approximately HK$7,153,000 (2007: post-tax profit would increase/decrease by approximately HK$1,492,000) as a result of the changes in fair value of held-for-trading investments.

The Group's sensitivity to held-for-trading investments has increased from the prior year, which is mainly due to the purchase of held-for-trading investments during the year.

*Credit risk*

As at 31 December 2008 and 2007, 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 balance sheet.

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 each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's credit risk is also attributable to advances paid to third parties as disclosed in note 26. The Group has concentration of credit risk on the advances which have been paid to three counterparties. The management of the Group reviews the recoverability of these amounts at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

## 5. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and polices (continued)

*Credit risk (continued)*

Before accepting any new finance lease and entrusted loan borrower, the Group assesses the credit quality of each potential finance lease borrower or entrusted loan borrower and defined credit rating and limits for each finance lease borrower or entrusted loan borrower. The Group also demands certain finance lease borrowers to place security deposits with the Group at the time the finance lease arrangement is entered into. In addition, the Group has reviewed the repayment history of finance lease payments from each finance lease borrower or repayment from each entrusted loan borrower with reference to the repayment schedule from the date of finance lease or entrusted loan was initially granted up to the reporting date to determine the recoverability of a finance lease receivable and an entrusted loan receivable.

The credit risk on restricted bank deposits, pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 81% (2007: 47%) of the total trade receivables as at 31 December 2008, 100% (2007: 100%) of the total financial lease receivables as at 31 December 2008 and 100% (2007: Nil) of the total entrusted loan receivables as at 31 December 2008.

The Group has concentration of credit risk on its trade receivables as 8% (2007: 24%) and 33% (2007: 58%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. The customers are mainly engaged in the media business.

The Group also has concentration of credit risk from finance leasing business as 35% (2007: 31%) and 72% (2007: 79%) of the total finance lease receivables was due from the Group's largest finance lease borrower and the five largest finance lease borrowers, respectively. The borrowers are spread across diverse industries.

The Group also has concentration of credit risk on its entrusted loan receivables as 44% (2007: Nil) and 100% (2007: Nil) of the total entrusted loan receivables was due from the Group's largest entrusted loan borrower and the three entrusted loan borrowers, respectively. The borrowers are from different industry sectors.

## 5. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and polices (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 borrowings from time to time.

The following table details the Group's remaining contractual maturity for its 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.

***Liquidity table***

| | Weighted average effective interest rate % | Less than three months HK$'000 | Three to six months HK$'000 | Six months to one year HK$'000 | One to five years HK$'000 | Over five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31/12/2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| Trade payables | – | 6,568 | 76 | 1,473 | – | – | 8,117 | 8,117 |
| Other payables | – | 22,688 | 8,756 | – | – | – | 31,444 | 31,444 |
| Security deposits received | – | – | – | – | 60,168 | – | 60,168 | 60,168 |
| Borrowings | 8 | 119,276 | 105,063 | 211,250 | 997,239 | 52,976 | 1,485,804 | 1,357,296 |
| | | 148,532 | 113,895 | 212,723 | 1,057,407 | 52,976 | 1,585,533 | 1,457,025 |

| | Weighted average effective interest rate % | Less than three months HK$'000 | Three to six months HK$'000 | Six months to one year HK$'000 | One to five years HK$'000 | Over five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31/12/2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | | |
| Trade payables | – | 4,802 | 344 | – | – | – | 5,146 | 5,146 |
| Other payables | – | 22,905 | – | – | – | – | 22,905 | 22,905 |
| Amount due to a related party | – | 455 | – | – | – | – | 455 | 455 |
| Security deposits received | – | – | – | 749 | 62,080 | 10,666 | 73,495 | 73,495 |
| Borrowings | 7 | 96,385 | 87,917 | 195,378 | 1,271,102 | – | 1,650,782 | 1,417,370 |
| | | 124,547 | 88,261 | 196,127 | 1,333,182 | 10,666 | 1,752,783 | 1,519,371 |

## 5. FINANCIAL INSTRUMENTS (continued)

### c. Fair value

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using market rates from the observable current market transactions as input.

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

## 6. CAPITAL RISK MANAGEMENT

The Group's objectives to manage its capital are to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth, and to strengthening the Group's financial management capability. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 38 net of restricted bank deposits, pledged bank deposits, bank balances and cash, and total equity.

## 6. CAPITAL RISK MANAGEMENT (continued)

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using net debt to total equity ratio and current ratio. These ratios as at 31 December 2008 and 2007 were as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Net debt [1] | **1,092,373** | 872,475 |
| Total equity [2] | **871,174** | 968,356 |
| Net debt to total equity ratio (%) | **125** | 90 |
| Current assets | **860,257** | 947,534 |
| Current liabilities | **539,223** | 446,852 |
| Current ratio (%) | **160** | 212 |

The Directors considered that the Group maintained healthy capital as at 31 December 2008 as the Group had excess of current assets over current liabilities.

Notes:

(1) Net debt equals borrowings less restricted bank deposits, pledged bank deposits and bank balances and cash.

(2) Total equity equals to all capital and reserves of the Group.

## 7. REVENUE

Revenue represents finance lease income, the amounts received and receivable for goods sold by the Group to outside customers (less sales related taxes, returns and trade discounts), films and television programme distribution income, CG creation and production services, revenue arising on training fee, property leasing and management fee income, royalty income from share of box office receipts, receipts from exhibition of digital motion pictures, technical service income and rental income from equipment leasing during the year.

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Finance lease income | **128,467** | 16,771 |
| Sales of goods | **51,984** | 180,715 |
| Films and television programme distribution income | **52,832** | 13,839 |
| Revenue from contracts for CG creation and production | **42,542** | 51,300 |
| Training fee | **14,420** | 10,963 |
| Property leasing and management fee income | **6,702** | 7,568 |
| Royalty income from share of box office receipts | **5,518** | – |
| Receipts from exhibition of digital motion pictures | **3,024** | – |
| Technical service income | **2,652** | 3,131 |
| Rental income from equipment leasing | **40** | 16 |
| | **308,181** | 284,303 |

Included in revenue from sales of goods for the year ended 31 December 2007 is an amount of HK$132,912,000 (2008: Nil) in respect of goods sold in exchange for intangible asset.

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

For management purposes, the Group is 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:

**For the year ended 31 December 2008**

| | 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 | 6,702 | 60,194 | 98,398 | 14,420 | 128,467 | 308,181 |
| RESULT | (10,883) | (77,108) | 775 | 2,510 | 20,369 | (64,337) |
| Unallocated corporate income | | | | | | 5,751 |
| Unallocated corporate expenses | | | | | | (90,720) |
| Finance costs | | | | | | (6,046) |
| Share of loss of an associate | | | | | | (857) |
| Loss before tax | | | | | | (156,209) |
| Income tax expense | | | | | | (1,540) |
| Loss for the year | | | | | | (157,749) |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

**At 31 December 2008**

| | 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 |
|---|---|---|---|---|---|---|
| BALANCE SHEET | | | | | | |
| Assets | | | | | | |
| Segment assets | 146,225 | 374,957 | 51,629 | 4,267 | 1,577,527 | 2,154,605 |
| Interests in associates | | | | | | 21,856 |
| Held-for-trading investments | | | | | | 85,668 |
| Unallocated corporate assets | | | | | | 156,170 |
| Consolidated total assets | | | | | | 2,418,299 |
| Liabilities | | | | | | |
| Segment liabilities | 4,906 | 32,253 | 43,742 | 4,864 | 1,282,509 | 1,368,274 |
| Borrowings | | | | | | 171,199 |
| Unallocated corporate liabilities | | | | | | 7,652 |
| Consolidated total liabilities | | | | | | 1,547,125 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

**For the year ended 31 December 2008**

| | 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$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| OTHER INFORMATION | | | | | | | |
| Capital additions | – | 39,345 | 17,762 | 1,453 | 10 | 556 | 59,126 |
| Other expense (note 11) | – | 22,202 | – | – | – | – | 22,202 |
| Depreciation of property, plant and equipment | 21 | 1,442 | 5,663 | 736 | 619 | 1,848 | 10,329 |
| Allowance for bad and doubtful debts | – | – | 6,000 | 386 | – | – | 6,386 |
| Allowance for inventories | – | 1,031 | – | – | – | – | 1,031 |
| Amortisation of intangible asset (included in cost of sales) | – | 28,491 | – | – | – | – | 28,491 |
| Amortisation of prepaid lease payments | – | – | 125 | – | – | 36 | 161 |
| Share-based payments expenses (note 46) | – | – | – | – | – | 10,869 | 10,869 |
| Gain on disposal of intangible asset | – | 104 | – | – | – | – | 104 |
| Impairment loss in respect of goodwill | – | 10,397 | – | – | – | – | 10,397 |
| Loss on disposal of property, plant and equipment | – | – | 50 | – | – | – | 50 |
| Decrease in fair value of investment properties | 15,960 | – | – | – | – | – | 15,960 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

For the year ended 31 December 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 | 7,568 | 183,862 | 65,139 | 10,963 | 16,771 | 284,303 |
| RESULT | 37,464 | 4,522 | 15,967 | 1,987 | 488 | 60,428 |
| Unallocated corporate income | | | | | | 41,068 |
| Unallocated corporate expenses | | | | | | (93,941) |
| Finance costs | | | | | | (4,873) |
| Share of results of associates | | | | | | 7,255 |
| Discount on acquisition of additional interest in a subsidiary | | | | | | 1,342 |
| Gain on disposal and dilution of interests in subsidiaries | | | | | | 375,680 |
| Gain on disposal of interest in a jointly controlled entity | | | | | | 61,039 |
| Profit before tax | | | | | | 447,998 |
| Income tax expense | | | | | | (6,785) |
| Profit for the year | | | | | | 441,213 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

At 31 December 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 |
|---|---|---|---|---|---|---|
| BALANCE SHEET | | | | | | |
| Assets | | | | | | |
| Segment assets | 149,229 | 259,886 | 80,791 | 6,296 | 1,554,963 | 2,051,165 |
| Interests in associates | | | | | | 424 |
| Amount due from an associate | | | | | | 1,053 |
| Held-for-trading investments | | | | | | 29,846 |
| Unallocated corporate assets | | | | | | 483,903 |
| Consolidated total assets | | | | | | 2,566,391 |
| Liabilities | | | | | | |
| Segment liabilities | 1,574 | 24,678 | 27,841 | 6,405 | 1,443,897 | 1,504,395 |
| Borrowings | | | | | | 78,822 |
| Unallocated corporate liabilities | | | | | | 14,818 |
| Consolidated total liabilities | | | | | | 1,598,035 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

For the year ended 31 December 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$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| OTHER INFORMATION | | | | | | | |
| Capital additions | 1,498 | 225,121 | 5,098 | 2,734 | 119 | 2,107 | 236,677 |
| Depreciation of property, plant and equipment | 21 | 115 | 2,880 | 351 | 102 | 1,013 | 4,482 |
| Allowance for bad and doubtful debts | – | – | 230 | – | – | – | 230 |
| Amortisation of prepaid lease payments | – | – | 68 | – | – | 31 | 99 |
| Share-based payments expenses (note 46) | – | 15,914 | – | – | – | 56,437 | 72,351 |
| (Gain) loss on disposal of property, plant and equipment | – | (20) | – | – | – | 139 | 119 |
| Increase in fair value of investment properties | 31,130 | – | – | – | – | – | 31,130 |

### (b) Geographical segments

The Group's five business segments operate in four main geographical areas, namely the PRC, the United States, Europe and other regions. The head office of the Group is located in Hong Kong. The Group's CG creation and films and television programme production centres, CG training facilities and finance leasing are located in the PRC. For property leasing and building management services, the business is mainly located in Hong Kong.

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (b) Geographical segments (continued)

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| The PRC | 236,822 | 173,837 |
| The United States | 36,434 | 68,073 |
| Europe | 12,076 | 12,962 |
| Other regions | 22,849 | 29,431 |
| | 308,181 | 284,303 |

The following is an analysis of the carrying amount of segment assets, and capital additions, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Capital additions | |
|---|---|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 |
| The PRC | 1,734,051 | 1,109,322 | 58,089 | 231,317 |
| Hong Kong | 416,118 | 937,315 | 886 | 4,547 |
| The United States | 342 | 1,986 | 137 | 177 |
| Singapore | 4,094 | 2,501 | 14 | 636 |
| Other regions | – | 41 | – | – |
| Total | 2,154,605 | 2,051,165 | 59,126 | 236,677 |

## 9. OTHER INCOME

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income from loans and receivables | **5,190** | 14,084 |
| Dividend income from held-for-trading investments | **3,118** | 144 |
| Waiver of interest payable on other loan | **–** | 4,156 |
| Waiver of rental payable to a landlord | **–** | 3,228 |
| Others | **3,727** | 1,757 |
| | **12,035** | 23,369 |

## 10. FINANCE COSTS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank and other borrowings wholly repayable within five years | **5,047** | 4,858 |
| Interest on bank and other borrowings not wholly repayable within five years | **335** | – |
| Other finance costs | **664** | 15 |
| | **6,046** | 4,873 |

## 11. OTHER EXPENSE

Other expense for the year ended 31 December 2008 represents a one-off payment to China Film Group Corporation ("CFGC"), the majority shareholder of an associate of the Group, for the acquisition of certain of its film distribution rights in the PRC.

## 12. GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES

The gain on disposal and dilution of interests in subsidiaries for the year ended 31 December 2007 of approximately HK$375,680,000 (2008: Nil) resulted from the following transactions:

(i) During that year, Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company with its shares listed on the Growth Enterprise Market ("GEM") of the Stock Exchange, issued in aggregate 378,000,000 new shares through one subscription and three 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 62,426,000 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 year. An aggregate gain on the GDC Top-up Placing Transactions, the GDC Dilution and the GDC Disposal Transaction of approximately HK$335,550,000 has been recognised in the consolidated income statement with aggregate proceeds of approximately HK$508,667,000.

(ii) A gain of approximately HK$40,295,000 arising from dilution of the 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 (equivalent to approximately HK$50,570,000) in January 2007.

(iii) A net loss of approximately HK$165,000 on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during that year.

## 13. GAIN ON DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY

On 1 December 2006, the Group entered into an agreement with China Beijing Shougang Hotel Development Company ("Shougang Hotel"), a wholly owned subsidiary of Shougang Corporation, and Strength Up Investments Limited ("Strength Up"), a wholly owned subsidiary of Shougang Holding, for the 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. ("Beijing Dongzhimen") to Shougang Hotel and Strength Up for a consideration of RMB170,000,000 (the "Dongzhimen Disposal"). Beijing Dongzhimen was a sino-foreign equity joint venture which was established in the PRC and was principally engaged in the provision of serviced apartment services through its ownership of East Lake Villas located in Dongcheng District, Beijing, the PRC. The Dongzhimen 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 PRC authorities. Accordingly, a gain on disposal of interest in a jointly controlled entity of approximately HK$61,039,000 (2008: Nil) was recognised in the consolidated income statement for the year ended 31 December 2007.

## 14. INCOME TAX EXPENSE

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The income tax expense comprises: | | |
| Current tax: | | |
| Hong Kong | | |
| Provision for the year | **63** | 1,479 |
| Overprovision in prior year | **(431)** | – |
| | **(368)** | 1,479 |
| PRC Enterprise Income Tax ("EIT") | | |
| Provision for the year | **4,401** | 5,352 |
| Overprovision in prior year | **(2,246)** | – |
| | **2,155** | 5,352 |
| | **1,787** | 6,831 |
| Deferred taxation (note 39): | | |
| Current year | **(247)** | (46) |
| | **1,540** | 6,785 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the EIT rate of certain Group's subsidiaries operating in the PRC was either reduced from 33% to 25% or was increased from 18% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC ranged from 18% to 25% (2007: 15% to 33%).

## 14. INCOME TAX EXPENSE (continued)

In 2008, a PRC subsidiary was granted two years' tax exemption for the financial years ended 2007 and 2008, a provision for PRC EIT of approximately HK$2,246,000 made in 2007 was therefore reversed in the consolidated income statement for the current financial year.

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

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| (Loss) profit before tax | **(156,209)** | 447,998 |
| Tax (credit) charge at PRC EIT rate of 25% (2007: Hong Kong Profits Tax rate of 17.5%) | **(39,052)** | 78,400 |
| Tax effect on share of results of associates | **214** | (1,270) |
| Tax effect of expenses not deductible for tax purposes | **18,449** | 8,551 |
| Tax effect of income not taxable for tax purposes | **(920)** | (76,762) |
| Overprovision in prior year | **(2,677)** | – |
| Tax effect of deferred tax assets not recognised | **15,951** | 4,578 |
| Tax effect of utilisation of deferred tax assets previously not recognised | **(317)** | (8,551) |
| Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised | **–** | 2,961 |
| Utilisation of temporary differences arising from unrealised profits resulting from intra-group transactions previously not recognised | **(423)** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **13,205** | (898) |
| Effect of tax exemptions granted to a subsidiary in the PRC | **(1,618)** | – |
| Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate | **(66)** | – |
| Others | **(1,206)** | (224) |
| Income tax expense for the year | **1,540** | 6,785 |

## 15. (LOSS) PROFIT FOR THE YEAR

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| (Loss) profit for the year has been arrived at after charging: | | |
| Staff costs, including Directors' remuneration (note 16): | | |
| – Salaries, wages and other benefits | **94,028** | 76,697 |
| – Retirement benefit scheme contributions | **2,905** | 1,814 |
| – Share-based payments | **10,869** | 72,351 |
| Total staff costs | **107,802** | 150,862 |
| Less: amounts included in production work in progress | **(10,526)** | (13,612) |
| | **97,276** | 137,250 |
| Allowance for bad and doubtful debts | **6,386** | 230 |
| Allowance for inventories | **1,031** | – |
| Amortisation of intangible asset (included in cost of sales) | **28,491** | – |
| Amortisation of prepaid lease payments | **161** | 99 |
| Auditor's remuneration | **3,433** | 3,252 |
| Cost of inventories recognised as an expense | **35,574** | 137,819 |
| Depreciation of property, plant and equipment | **10,329** | 4,482 |
| Less: amounts included in production work in progress | **(1,904)** | (2,049) |
| government grants | **(568)** | – |
| | **7,857** | 2,433 |
| Impairment loss in respect of goodwill | **10,397** | – |
| Loss on disposal of property, plant and equipment | **50** | 119 |
| Minimum lease payments under operating leases for land and buildings | **7,992** | 6,008 |
| Research and development costs | **2,843** | 4,432 |
| and after crediting: | | |
| Gain on disposal of intangible asset | **104** | – |
| Gross rents from investment properties | **6,702** | 7,568 |
| Less: outgoings | **(580)** | (579) |
| | **6,122** | 6,989 |

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2007: 11) Directors were as follows:

**2008**

| | Wang Qinghai HK$'000 | Cao Zhong HK$'000 | Chen Zheng HK$'000 | Wang Tian HK$'000 | Yuan Wenxin HK$'000 | Leung Shun Sang, Tony HK$'000 | Tam King Ching, Kenny HK$'000 | Zhou Jianhong HK$'000 | Yip Kin Man, Raymond HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Fees | 150 | – | – | – | – | 190 | 240 | 240 | 240 | 1,060 |
| Other emoluments | | | | | | | | | | |
| Salaries and other benefits | – | 1,950 | 1,560 | 1,560 | 1,560 | – | – | – | – | 6,630 |
| Retirement benefit scheme contributions | – | 12 | 72 | 72 | 72 | – | – | – | – | 228 |
| Share-based payments | – | 2,979 | 1,813 | 1,555 | 1,555 | 2,073 | 298 | 298 | 298 | 10,869 |
| Total emoluments | 150 | 4,941 | 3,445 | 3,187 | 3,187 | 2,263 | 538 | 538 | 538 | 18,787 |

2007

| | Wang Qinghai HK$'000 | Cao Zhong HK$'000 | Chen Zheng HK$'000 | Wang Tian HK$'000 | Cheng Xiaoyu HK$'000 | Yuan Wenxin HK$'000 | Leung Shun Sang, Tony HK$'000 | Tam King Ching, Kenny HK$'000 | Zhou Jianhong HK$'000 | Yip Kin Man, Raymond HK$'000 | Liu Wei HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fees | 120 | – | – | – | – | – | 120 | 150 | 150 | 143 | 10 | 693 |
| Other emoluments | | | | | | | | | | | | |
| Salaries and other benefits | – | 720 | 2,280 | 1,600 | 800 | 1,600 | – | – | – | – | – | 7,000 |
| Retirement benefit scheme contributions | – | – | 72 | 60 | 37 | 60 | – | – | – | – | – | 229 |
| Share-based payments | 1,810 | 1,810 | 1,810 | 1,448 | 1,448 | 1,448 | 1,810 | 181 | 181 | 181 | 181 | 12,308 |
| Total emoluments | 1,930 | 2,530 | 4,162 | 3,108 | 2,285 | 3,108 | 1,930 | 331 | 331 | 324 | 191 | 20,230 |

No Director waived any emoluments in both years.

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2007: three) were the Directors whose emoluments are set out above. The emoluments of the remaining one (2007: two) individual were as follows:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries and other benefits | **2,680** | 3,680 |
| Contributions to retirement benefits schemes | **12** | 16 |
| Share-based payments | **–** | 31,967 |
| | **2,692** | 35,663 |

Their emoluments were within the following bands:

| | **2008** **No. of employees** | 2007 No. of employees |
|---|---|---|
| Nil to HK$2,500,000 | **–** | – |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$3,000,001 to HK$13,500,000 | **–** | – |
| HK$13,500,001 to HK$14,000,000 | **–** | 1 |
| HK$14,000,001 to HK$21,500,000 | **–** | – |
| HK$21,500,001 to HK$22,000,000 | **–** | 1 |
| HK$22,000,001 to HK$24,000,000 | **–** | – |

## 17. (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:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) earnings for the purposes of basic (loss) earnings per share ((loss) profit for the year attributable to equity holders of the Company) | **(119,446)** | 425,661 |
| Effect of dilutive potential ordinary shares: | | |
| – adjustment to the share of profits of subsidiaries based on dilution of their earnings per share | **–** | (740) |
| (Loss) earnings for the purposes of diluted (loss) earnings per share | **(119,446)** | 424,921 |

| | '000 | '000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share | **1,151,206** | 1,144,518 |
| Effect of dilutive potential ordinary shares: | | |
| – share options | **–** | 36,267 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **1,151,206** | 1,180,785 |

No diluted loss per share has been presented for the year ended 31 December 2008 as the exercise of the share options could result in a decrease in the loss per share.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Computer equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | |
| At 1 January 2007 | 1,043 | 2,304 | 14,751 | 8,047 | – | 26,145 |
| Exchange realignment | – | 1,583 | 1,314 | 305 | – | 3,202 |
| Additions | – | 3,511 | 6,144 | 3,958 | 1,519 | 15,132 |
| Disposals | – | – | (35) | (428) | – | (463) |
| Acquired on acquisition of subsidiaries | – | 41 | – | 1,077 | – | 1,118 |
| Transfer from investment properties (note 20) | 27,931 | – | – | – | – | 27,931 |
| At 31 December 2007 | 28,974 | 7,439 | 22,174 | 12,959 | 1,519 | 73,065 |
| Exchange realignment | 1,755 | 1,641 | 1,415 | 543 | 96 | 5,450 |
| Additions | – | 1,825 | 10,134 | 1,343 | 7,368 | 20,670 |
| Disposals | – | (104) | (13,898) | (278) | – | (14,280) |
| At 31 December 2008 | 30,729 | 10,801 | 19,825 | 14,567 | 8,983 | 84,905 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2007 | 295 | 2,152 | 10,636 | 5,270 | – | 18,353 |
| Exchange realignment | 2 | 1,637 | 1,049 | 232 | – | 2,920 |
| Provided for the year | 122 | 353 | 2,233 | 1,774 | – | 4,482 |
| Eliminated on disposals | – | – | (35) | (289) | – | (324) |
| At 31 December 2007 | 419 | 4,142 | 13,883 | 6,987 | – | 25,431 |
| Exchange realignment | 12 | 1,543 | 1,038 | 272 | – | 2,865 |
| Provided for the year | 694 | 1,572 | 5,593 | 2,470 | – | 10,329 |
| Eliminated on disposals | – | (104) | (13,898) | (228) | – | (14,230) |
| At 31 December 2008 | 1,125 | 7,153 | 6,616 | 9,501 | – | 24,395 |
| CARRYING VALUES | | | | | | |
| At 31 December 2008 | 29,604 | 3,648 | 13,209 | 5,066 | 8,983 | 60,510 |
| At 31 December 2007 | 28,555 | 3,297 | 8,291 | 5,972 | 1,519 | 47,634 |

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment other than the construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Buildings | Over the shorter of term of the lease or 50 years |
| Leasehold improvements | Over the shorter of term of the lease or 5 years |
| Computer equipment | $33^1/_3$% |
| Other fixed assets | 20% – 30% |

At 31 December 2008, the Group has pledged buildings with a carrying value of approximately HK$29,604,000 (2007: HK$28,555,000) to secure general banking facilities granted to the Group.

## 19. PREPAID LEASE PAYMENTS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Long-term leasehold land in Hong Kong | **1,619** | 1,650 |
| Medium-term leasehold land in the PRC | **6,049** | 5,727 |
| | **7,668** | 7,377 |
| Analysed for reporting purposes as: | | |
| Current asset | **156** | 147 |
| Non-current asset | **7,512** | 7,230 |
| | **7,668** | 7,377 |

The Group has pledged leasehold land with a carrying value of approximately HK$1,619,000 (2007: HK$1,650,000) to secure general banking facilities granted to the Group.

## 20. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2007 | 136,098 |
| Exchange realignment | 1,863 |
| Net increase in fair value recognised in the consolidated income statement | 31,130 |
| Transfer to property, plant and equipment (Note) | (27,931) |
| At 31 December 2007 | 141,160 |
| Net decrease in fair value recognised in the consolidated income statement | (15,960) |
| At 31 December 2008 | 125,200 |

Note: During the year ended 31 December 2007, an investment property with a fair value of approximately HK$27,931,000 was transferred to property, plant and equipment. This property was leased by the Group to South China International Leasing Company Limited ("South China Leasing") for that year. Upon the completion of acquisition of further 30% effective interest in South China Leasing during that year, South China Leasing became a subsidiary of the Company and this property was considered as used by the Group and was therefore transferred to property, plant and equipment. Upon the transfer, the investment property was valued by AA Property Services Limited. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The fair value of the Group's investment properties at 31 December 2008 and 2007 have 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.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

At 31 December, 2008, all of the Group's investment properties are held under long leases with the lease terms of 52 to 126 years and investment properties with carrying amount of approximately HK$125,200,000 (2007: HK$141,160,000) have been pledged to banks to secure general banking facilities granted to the Group.

## 21. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2007 | 191,457 |
| Transfer from interests in associates (note 24) | 787 |
| Arising on acquisition of subsidiaries (note 42(a)) | 52,148 |
| Arising on acquisition of additional interest in a subsidiary (note 42(b)) | 10,397 |
| At 31 December 2007 and 2008 | 254,789 |
| IMPAIRMENT | |
| At 1 January 2007 and 31 December 2007 | 191,457 |
| Impairment loss recognised | 10,397 |
| At 31 December 2008 | 201,854 |
| CARRYING VALUE | |
| At 31 December 2008 | 52,935 |
| At 31 December 2007 | 63,332 |

Particulars regarding impairment testing on goodwill are disclosed in note 22.

## 22. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 21 has been allocated to CGUs mainly represented by finance leasing division and digital content distribution and exhibitions division. The carrying amounts of goodwill allocated to these units are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Finance leasing – South China Leasing | **52,935** | 52,935 |
| Digital content distribution and exhibitions – GDC | **–** | 10,397 |
| | **52,935** | 63,332 |

The recoverable amount of the CGU arising from finance leasing division has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. For the purpose of impairment testing, the value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 9% (2007: 8%) for finance leasing division. Cash flow projections during the budget period for the CGUs are based on the expected revenue and gross margins during the budget period. Budgeted revenue and gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the above CGU to exceed the recoverable amount of the above CGU.

As disclosed in note 48(b), the Group has entered into a conditional agreement with CFGC to dispose the intangible asset which represents the contractual rights to share a specific percentage of the box office receipts from certain cinemas in the PRC using the digital cinema equipment installed by the Group. Based on the terms of this disposal, the fair value less cost to sell in relation to this CGU is less than the carrying amount of the CGU as at year end. The management has therefore determined that goodwill associated with the Group's digital content distribution and exhibitions division was impaired and impairment loss was recognised for the entire carrying amount of approximately HK$10,397,000 (2007: Nil).

## 23. INTANGIBLE ASSET

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2007 | – |
| Acquisition | 221,545 |
| At 31 December 2007 | 221,545 |
| Exchange realignment | 13,834 |
| Acquisition | 38,369 |
| Disposal | (1,250) |
| At 31 December 2008 | 272,498 |
| AMORTISATION | |
| At 1 January 2007 and 31 December 2007 | – |
| Charge for the year | 28,491 |
| Eliminated on disposal | (104) |
| At 31 December 2008 | 28,387 |
| CARRYING VALUE | |
| At 31 December 2008 | 244,111 |
| At 31 December 2007 | 221,545 |

The intangible asset represents the contractual rights to share a specified percentage of the box office receipts from certain cinemas in the PRC using the digital cinema equipment installed by the Group for exhibition of digital contents. It has finite useful life and is amortised on a straight-line basis over the relevant contract up to 10 years.

On 9 January 2009, the Group conditionally agreed to dispose the intangible asset to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). Details of which are set out in note 48(b).

## 24. INTERESTS IN ASSOCIATES

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of investment in unlisted associates | **22,586** | 1,502 |
| Share of post-acquisition translation reserve | **1,205** | – |
| Share of post-acquisition losses | **(1,155)** | (298) |
| Less: Impairment loss recognised | **(780)** | (780) |
| | **21,856** | 424 |

Details of the Group's principal associates at 31 December 2008 and 2007 are as follows:

| Name of entity | Form of business structure | Place of incorporation/ establishment and operation | Proportion of nominal of value issued share capital/ registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|
| Top Pearl International Development Ltd. ("Top Pearl") | Incorporated | BVI/The PRC | 50% | 50% | Property development |
| 中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Limited ("CFGDC") | Sino-foreign equity joint venture | The PRC/ The PRC | 49% | 40% (Note) | Deployment of digital cinema network and related business |

Note: The Group holds 49% of the registered capital of CFGDC and holds 2 out of 5 votes (representing 40% of total votes) in the board of directors of CFGDC. Pursuant to the Articles of Association of CFGDC, over 50% vote is required to pass a resolution in relation to the financial and operating policies of CFGDC. The Directors consider the Group does not control CFGDC but the Group can exercise significant influence over CFGDC. Hence, CFGDC is classified as an associate of the Group.

## 24. INTERESTS IN ASSOCIATES (continued)

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total assets | **44,639** | 2,837 |
| Total liabilities | **(35)** | (1,972) |
| Net assets | **44,604** | 865 |
| The Group's share of net assets of associates | **21,856** | 424 |
| Goodwill (Note) | **–** | – |
| | **21,856** | 424 |
| Revenue | **611** | 99,860 |
| (Loss) profit for the year | **(1,749)** | 14,498 |
| The Group's share of results of associates for the year | **(857)** | 7,255 |

Note:

GOODWILL

| | HK$'000 |
|---|---|
| As at 1 January 2007 | 787 |
| Transfer to goodwill (note 21) upon acquisition of further interests in associates (Note) | (787) |
| As at 31 December 2007 and 2008 | – |

Note: In November 2007, the Group acquired a further 50% equity interest in Jeckman Holdings Limited ("Jeckman"), which represented an effective acquisition of a further 30% equity interest in South China Leasing (the "Jeckman Acquisition"). Upon the completion of the Jeckman Acquisition, the Group's equity interest of Jeckman increased from 50% to 100% and the Group's effective equity interest in South China Leasing increased from 50% to 80%. Accordingly, Jeckman and South China Leasing became subsidiaries of the Company thereafter.

## 25. LOAN TO/AMOUNT DUE FROM AN ASSOCIATE

### (a) Loan to Top Pearl

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Loan to Top Pearl | **27,900** | 27,900 |
| Due from Top Pearl | **3,589** | 3,589 |
| | **31,489** | 31,489 |
| Less: Allowance for bad and doubtful debt | **(31,489)** | (31,489) |
| | **–** | – |

The loan to and due from Top Pearl as at 31 December 2008 and 2007 of approximately HK$31,489,000 are unsecured, interest-free and has no fixed terms of repayment. The Directors considered the whole amount of loan to and due from Top Peal was fully impaired at the balance sheet date.

### (b) Amount due from an associate

The amount was unsecured, non-interest bearing and was fully settled during the year.

## 26. ADVANCES

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Advances paid for: | | |
| Agreement for a term loan facility and call options (note 48(a)) | **68,182** | – |
| Agreements for acquisition of non-performing loans and interests (note 48(c)) | **32,136** | – |
| Agreement for acquisition of additional interest in a subsidiary (Note) | **26,229** | – |
| | **126,547** | – |

Note: On 20 August 2008, the Group entered into an agreement with the minority shareholder of South China Leasing pursuant to which the minority shareholder 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 (equivalent to approximately HK$36,085,000). This acquisition is subject to the approval by the authority in the PRC and South China Leasing having received its new business license. Details of this acquisition are set out in the circular of the Company dated 3 September 2008.

As at 31 December 2008, the amount of advance paid and direct transaction costs incurred in relation to the acquisition of the additional interest in a subsidiary amounted to approximately HK$26,229,000.

## 27. FINANCE LEASE RECEIVABLES

| | Minimum lease receipts | | Present value of minimum lease receipts | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Finance lease receivables comprise: | | | | |
| Within one year | **543,315** | 453,221 | **463,170** | 344,404 |
| In more than one year but not more than two years | **530,174** | 445,482 | **492,351** | 367,104 |
| In more than two years but not more than three years | **209,746** | 465,960 | **193,068** | 427,555 |
| In more than three years but not more than four years | **115,246** | 162,768 | **108,464** | 147,825 |
| In more than four years but not more than five years | **33,278** | 77,156 | **32,409** | 71,792 |
| More than five years | **943** | 15,799 | **846** | 15,193 |
| | **1,432,702** | 1,620,386 | **1,290,308** | 1,373,873 |
| Less: Unearned finance income | **(142,394)** | (246,513) | **N/A** | N/A |
| Present value of minimum lease receipts | **1,290,308** | 1,373,873 | **1,290,308** | 1,373,873 |
| Analysed as: | | | | |
| Current finance lease receivables (receivable within 12 months) | | | **463,170** | 344,404 |
| Non-current finance lease receivables (receivable after 12 months) | | | **827,138** | 1,029,469 |
| | | | **1,290,308** | 1,373,873 |

## 27. FINANCE LEASE RECEIVABLES (continued)

Effective interest rates of the above finance lease receivables for the year are as follows:

| | **2008** | 2007 |
|---|---|---|
| Effective interest rates | **6% to 16%** | 6 % to 17% |

For the year ended 31 December 2008, finance lease receivables of approximately HK$1,258,941,000 (2007: HK$1,345,221,000) have been pledged against specific bank borrowings granted to the Group. As at 31 December 2008, finance lease receivables amounting to approximately HK$39,393,000 (2007: Nil) were past due but not impaired. The finance lease receivables past due but not impaired are all aged 90 to 180 days. The Directors considered that those receivables are with good credit quality according to their past repayment history. The Directors have assessed the estimated fair value of the leased assets of receivables which are past due but not impaired to determine whether adequate collateral has been held for these finance lease borrowers and considered that the estimated fair value of these leased assets held is in excess of the carrying amount of the receivables. The leased assets for those past due receivables mainly include machineries and vessels.

For the finance lease receivables which are neither past due nor impaired, the Directors assessed that the balances are with good credit quality according to their past repayment history.

Security deposits of approximately HK$60,168,000 (2007: HK$73,495,000) has been received by the Group to secure the finance lease receivables. In addition, the finance lease receivables are secured over the leased assets as at 31 December 2008. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the lessee.

All the Group's finance lease receivables are denominated in Renminbi, the functional currency of the relevant group entity.

## 28. ENTRUSTED LOAN RECEIVABLES

During the year, two of the PRC subsidiaries of the Company entered into entrusted loan arrangements with banks, in which the subsidiaries acted as the entrusting parties and the banks acted as the lenders to provide funding to specified borrowers. Details of the entrusted loan receivables are as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Entrusted loan receivables comprise: | | |
| Within one year | 26,879 | – |
| In more than one year but not more than two years | 25,272 | – |
| In more than two years but not more than three years | 227 | – |
| | 52,378 | – |
| Less: Amounts due within one year shown under current assets | (26,879) | – |
| Amounts due after one year | 25,499 | – |

As at 31 December 2008, the exposure of the Group's fixed-rate receivables and the contractual maturity dates are as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Fixed-rate receivables which are due: | | |
| Within one year | 26,879 | – |
| In more than one year but not more than two years | 2,545 | – |
| In more than two years but not more than three years | 227 | – |
| | 29,651 | – |

As at 31 December 2008, the Group's variable-rate receivable amounted to approximately HK$22,727,000 (2007: Nil) which is due in more than one year but not more than two years.

## 28. ENTRUSTED LOAN RECEIVABLES (continued)

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's entrusted loan receivables are as follows:

| | **2008** | 2007 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate receivables | **13% to 15%** | – |
| Variable-rate receivable | **PBC Rate up by a premium of 5%** | – |

For the year ended 31 December 2008, no entrusted loan receivables have been past due but not impaired. The Directors considered that the entrusted loan borrowers have good credit quality according to their past repayment history.

All the Group's entrusted loan receivables are denominated in Renminbi, the functional currency of the relevant group entities. During the year, the Group entered into an entrusted loan agreement with a finance lease borrower amounting to approximately HK$23,987,000.

The entrusted loan receivables are mainly secured by properties and vessels pledged by the specified borrowers or their related parties. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the entrusted loan borrower.

## 29. INVENTORIES

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **6,345** | 4,395 |
| Finished goods | **15,559** | 21,386 |
| | **21,904** | 25,781 |

## 30. PRODUCTION WORK IN PROGRESS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Movie and television series | **3,875** | 11,094 |

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

The following is details of contracts from CG production in progress at the balance sheet date:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | 28,574 | 19,137 |
| Less: progress billings | (13,402) | (19,083) |
| | 15,172 | 54 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | 16,935 | 1,494 |
| Amounts due to customers for contract work | (1,763) | (1,440) |
| | 15,172 | 54 |

## 32. TRADE RECEIVABLES

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Trade receivables | 26,910 | 19,273 |
| Less: Allowance for doubtful debts | (6,386) | (230) |
| | 20,524 | 19,043 |

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of the trade receivables, net of allowance for doubtful debts, at the balance sheet date:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| 0 – 90 days | 8,302 | 17,179 |
| 91 – 180 days | 8,527 | 1,053 |
| Over 180 days | 3,695 | 811 |
| | 20,524 | 19,043 |

## 32. TRADE RECEIVABLES (continued)

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK$12,222,000 (2007: HK$1,864,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Directors assessed that the balances will be recovered as these receivables have good credit quality according to their past repayment history. The Group does not hold any collateral over these balances.

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 91 – 180 days | **8,527** | 1,053 |
| 181 – 270 days | **1,446** | – |
| 271 – 360 days | **2,046** | 306 |
| Over 360 days | **203** | 505 |
| Total | **12,222** | 1,864 |

### Movement in the allowance for doubtful debts

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **230** | 1,660 |
| Allowance for impairment losses | **6,386** | 230 |
| Amounts written off as uncollectible | **–** | (1,660) |
| Amounts recovered during the year | **(230)** | – |
| Balance at end of the year | **6,386** | 230 |

Included in the allowance for doubtful debts as at 31 December 2008 and 2007 were individually impaired trade receivables with an aggregate balance of approximately HK$6,386,000 and HK$230,000, respectively, in respect of which the customers were not fully satisfied with the quality of products provided by CG creation and films and television programme production division and services provided by CG training division and the amount was considered uncollectible.

## 33. OTHER FINANCIAL ASSETS

### Prepayments, deposits and other receivables

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Other receivables | **17,347** | 33,611 |
| Prepayments | **3,336** | 2,268 |
| Deposits | **2,274** | 6,380 |
| | **22,957** | 42,259 |

Other receivables as at 31 December 2007 mainly represented a temporary payment of approximately HK$24,600,000 (2008: Nil) to a third party for a potential project of which a minority shareholder of a subsidiary agreed to pledge its equity interest in the subsidiary as security of the settlement and handling fee receivable from the finance lease borrower. The temporary payment has been repaid by the third party during the year ended 31 December 2008.

The Group does not hold any collateral over these balances except for the temporary payment mentioned above.

### Restricted bank deposits

The amounts as at 31 December 2008 and 2007 represented bank deposits restricted and the restricted bank deposits will be released upon the full settlement of the relevant bank borrowings. Therefore, they are classified as non-current assets.

The deposits carried at average interest rate at 3.60% (2007: 8.64%) per annum.

### Pledged bank deposits

As at 31 December 2008, pledged bank deposits represent deposits of approximately HK$2,808,000 (2007: HK$7,800,000) and HK$665,000 (2007: Nil) pledged to banks to secure a purchase of raw materials agreement (classified as current asset) and a construction agreement (classified as non-current asset), respectively, entered into with independent third parties. The pledged bank deposits will be released upon the settlement of the relevant agreements.

As at 31 December 2007, a bank deposit of approximately HK$1,052,000 (2008: Nil) was restricted for the repayment of short-term bank borrowing. This deposit was released during the year ended 31 December 2008 upon full settlement of the relevant bank borrowing.

As at 31 December 2008, the deposits carried interest rate from 0.1% to 3.22% per annum (2007: 3.75% per annum).

## 33. OTHER FINANCIAL ASSETS (continued)

### Bank balances and cash

The Group's deposits carry interest rate at prevailing bank saving deposits rate ranging from 0.18% to 1.69% (2007: 1.34% to 4.65%) per annum.

## 34. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2008 and 2007 represented equity securities as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Listed in the PRC | **73,588** | 8,864 |
| Listed in Hong Kong (note 49(a)) | **12,080** | 20,982 |
| | **85,668** | 29,846 |

The fair values of the held-for-trading investments were determined based on the quoted market bid prices available on the relevant exchanges.

## 35. TRADE PAYABLES

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **6,568** | 4,802 |
| 91 – 180 days | **76** | 344 |
| Over 180 days | **1,473** | – |
| | **8,117** | 5,146 |

## 36. INCOME RECEIVED IN ADVANCE

As at 31 December 2008 and 2007, the income received in advance represented handling fee income received from finance lease borrowers for administrative services provided over the relevant lease term, deposits received in advance before sales of goods are completed, training fee income received in advance before the training courses are completed and production and distribution income of films and television programme received before completion of production and distribution of films and television programme to the customers.

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Analysed for reporting purposes: | | |
| Current | **38,108** | 23,361 |
| Non-current | **16,393** | 21,245 |
| | **54,501** | 44,606 |

## 37. AMOUNT DUE TO A RELATED PARTY

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Mr. Raymond Dennis Neoh (Note) | **–** | 455 |

Note: As at 31 December 2007, the amount due to Mr. Raymond Dennis Neoh was unsecured, non-interest bearing and was stated at amortised cost at effective interest rate of 9.8%. The amount was fully settled during the year ended 31 December 2008.

## 38. BORROWINGS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Bank loans | **1,357,296** | 1,412,688 |
| Other loans | **–** | 4,682 |
| | **1,357,296** | 1,417,370 |
| Secured | **1,357,296** | 1,412,688 |
| Unsecured | **–** | 4,682 |
| | **1,357,296** | 1,417,370 |
| Carrying amount repayable: | | |
| On demand or within one year | **427,048** | 362,267 |
| More than one year, but not exceeding two years | **568,735** | 390,048 |
| More than two years, but not exceeding three years | **181,320** | 436,334 |
| More than three years, but not exceeding four years | **100,915** | 147,004 |
| More than four years, but not exceeding five years | **33,454** | 81,717 |
| More than five years | **45,824** | – |
| | **1,357,296** | 1,417,370 |
| Less: Amounts due within one year shown under current liabilities | **(427,048)** | (362,267) |
| Amounts due after one year | **930,248** | 1,055,103 |

The Group's fixed-rate borrowings and the contractual maturity dates are as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Fixed-rate borrowings which are due within one year | | |
| – Bank loan | **–** | 13,898 |
| – Other loans | **–** | 4,682 |

## 38. BORROWINGS (continued)

The Group's variable-rate borrowings and the contractual maturity dates are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Variable-rate borrowings which are due: | | |
| Within one year | **427,048** | 343,687 |
| More than one year, but not exceeding two years | **568,735** | 390,048 |
| More than two years, but not exceeding three years | **181,320** | 436,334 |
| More than three years, but not exceeding four years | **100,915** | 147,004 |
| More than four years, but not exceeding five years | **33,454** | 81,717 |
| More than five years | **45,824** | – |
| | **1,357,296** | 1,398,790 |

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's borrowings are as follows:

| | **2008** | 2007 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | | |
| – Bank loan | **–** | 6.73% |
| – Other loans | **–** | 12% |
| Variable-rate borrowings | | |
| – Bank loans | **(Note)** | (Note) |

Note: The interest rate in the Group's bank borrowing varies from different subsidiaries. The interest rate varies from prime rate minus 2.25%, HIBOR plus 1% to 1.375% and variable PBC rate up by a premium ranged from approximately 6% to 9% (2007: HIBOR plus 1% to 1.375% and variable PBC rate up by a premium ranged from approximately 6% to 9%). The proceeds were used as general working capital for the Group.

## 39. DEFERRED TAX LIABILITIES

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Deferred tax liabilities | **10,148** | 10,335 |
| Deferred tax assets | **(9,055)** | (8,995) |
| | **1,093** | 1,340 |

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

| | **Investment properties** HK$'000 | **Accelerated tax depreciation** HK$'000 | **Tax losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 January 2007 | 4,751 | 135 | (3,500) | 1,386 |
| Charge (credit) to the consolidated income statement | 5,448 | 1 | (5,495) | (46) |
| At 31 December 2007 | 10,199 | 136 | (8,995) | 1,340 |
| Credit to the consolidated income statement | (120) | (8) | (53) | (181) |
| Effect of change in tax rate | (59) | – | (7) | (66) |
| At 31 December 2008 | 10,020 | 128 | (9,055) | 1,093 |

At the balance sheet date, the Group has unused tax losses of approximately HK$181,450,000 (2007: HK$115,434,000) available for offset against future profits subject to approval from the relevant tax authority. A deferred tax asset has been recognised in respect of approximately HK$54,878,000 (2007: HK$51,400,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$126,572,000 (2007: HK$64,034,000) due to the unpredictability of future profit streams.

## 39. DEFERRED TAX LIABILITIES (continued)

At the balance sheet date, the Group has deductible temporary differences of approximately HK$32,716,000 (2007: HK$32,716,000) attributable to the difference between tax allowances and depreciation. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the New Law of the 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 difference attributable to the profits earned by the PRC subsidiaries amounting to approximately HK$27 million as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 40. SHARE CAPITAL

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of shares** | **Nominal value HK$'000** | Number of shares | Nominal value HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised: | | | | |
| At 1 January and 31 December | **2,000,000,000** | **20,000** | 2,000,000,000 | 20,000 |
| Issued and fully paid: | | | | |
| At 1 January | **1,150,392,469** | **11,504** | 1,136,856,469 | 11,369 |
| Exercise of share options (Note) | **1,000,000** | **10** | 13,536,000 | 135 |
| At 31 December | **1,151,392,469** | **11,514** | 1,150,392,469 | 11,504 |

Note: During the year, share option holders exercised their right to subscribe for 1,000,000 (2007: 13,536,000) ordinary shares of the Company at HK$0.41 per share.

## 41. CAPITAL COMMITMENTS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| Acquisition of property, plant and equipment and intangible asset | **8,350** | 2,928 |
| Investment in an associate | **–** | 20,954 |
| | **8,350** | 23,882 |

In addition, as disclosed in note 26, the Group entered into an agreement with the minority shareholder of South China Leasing to acquire the remaining 20% equity interest in the registered capital of South China Leasing, which will give rise to a future payment of approximately HK$9,856,000 (2007: Nil) subsequent to the approval by the authority in PRC and South China Leasing having received its new business licence.

## 42. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) On 14 August 2007, the Group signed an agreement to acquire a further 50% equity interest in Jeckman and the assignment of the HK$22.8 million shareholder's loan to Jeckman for a total consideration of HK$52 million (the "Jeckman Acquisition"). The Jeckman Acquisition was completed on 2 November 2007, the Group's effective interest in Jeckman increased from 50% to 100% and the effective interest in South China Leasing increased from 50% to 80%. Details of which are set out in the Company's circular dated 11 October 2007.

## 42. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(a) (continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

| | **Acquiree's carrying amount before combination** HK$'000 | **Fair value adjustments** HK$'000 | **Fair value** HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 1,118 | – | 1,118 |
| Finance lease license | 20,149 | (20,149) | – |
| Held-for-trading investments | 5,598 | – | 5,598 |
| Finance lease receivables | 1,370,413 | – | 1,370,413 |
| Restricted bank deposits | 70,522 | – | 70,522 |
| Other receivables | 26,149 | – | 26,149 |
| Bank balances and cash | 94,447 | – | 94,447 |
| Borrowings | (1,320,561) | – | (1,320,561) |
| Trade and other payable | (12,313) | – | (12,313) |
| Income received in advance | (28,185) | – | (28,185) |
| Shareholder's loan | (22,800) | – | (22,800) |
| Amounts due to group companies | (66,226) | – | (66,226) |
| Security deposits received | (69,947) | – | (69,947) |
| | 68,364 | (20,149) | 48,215 |
| Interests in associates | | | (43,555) |
| Minority interests | | | (27,608) |
| Goodwill (note 21) | | | 52,148 |
| Assignment of shareholder's loan | | | 22,800 |
| | | | 52,000 |
| Total consideration satisfied by: | | | |
| Cash | | | 52,000 |
| Net cash inflow arising on acquisition: | | | |
| Cash consideration paid | | | (52,000) |
| Bank balances and cash acquired | | | 94,447 |
| | | | 42,447 |

## 42. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(a) (continued)

South China Leasing contributed a loss of approximately HK$1.1 million to the Group for the period between the date of acquisition and 31 December 2007.

Had the acquisition been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been increased by approximately HK$100 million and profit for that year would have been increased by approximately HK$7 million. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor was it intended to be a projection of future results.

The fair value of certain assets of South China Leasing acquired had been determined based on a valuation report by an independent professional valuer.

(b) On 16 March 2007, Upper Nice Assets Ltd. ("Upper Nice"), a wholly owned subsidiary of the Company, and GDC entered into a subscription agreement, pursuant to which Upper Nice conditionally agreed to subscribe for 100,000,000 new shares of GDC at HK$0.54 per share. The subscription was approved by independent shareholders of GDC at the special general meeting held on 23 April 2007. Accordingly, goodwill of approximately HK$10,397,000 arose during the year ended 31 December 2007.

(c) On 14 August 2007, GDC Holdings Limited ("GDC Holdings"), a subsidiary of the Company, entered into a subscription agreement with GDC Technology, pursuant to which GDC Holdings conditionally agreed to subscribe for 53,388,178 new shares of GDC Technology at HK$2 per share (the "GDC Tech Subscription") at a consideration of approximately HK$106,776,000. The GDC Tech Subscription was completed on 2 November 2007 and GDC Holdings' equity interest in GDC Technology increased from approximately 51.1% to 62.4% thereafter.

The Group appointed Messrs. Greater China Appraisal Limited, an independent qualified professional valuer not connected with the Group, to assist the Group to ascertain the fair value of the net assets of GDC Technology in relation to the acquisition of additional interest in GDC Technology at the date of completion of the GDC Tech Subscription. Intangible assets mainly including customer orders and technology, had been identified with aggregate amount of fair value of approximately HK$410 million in accordance with the income approach and replacement cost approach while the fair value of other assets and liabilities of GDC Technology at that time did not differ significantly from their respectively carrying amounts.

## 42. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(c) (continued)

Accordingly, a discount on the acquisition of the additional interest in GDC Technology of approximately HK$1,342,000 arose, which represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology over the cost of the GDC Tech Subscription at the date of completion of the GDC Tech Subscription. In addition, it resulted in a special reserve in the amount of approximately HK$23,496,000 attributable to the equity holders of the Company which represented the difference between the fair value and the carrying amount of the net assets of GDC Technology attributable to the additional interest in GDC Technology being acquired.

## 43. MAJOR NON CASH TRANSACTION

During the year ended 31 December 2007, the Group had goods sold in exchange for intangible asset in the amount of HK$132,912,000 (2008: Nil).

## 44. 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 had advised that the enforcement of P&PM's and WAMC's claims should only be limited to the assets of GDC Entertainment.

## 44. LITIGATIONS (continued)

(i) (continued)

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 consolidated financial statements.

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

(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 consolidated financial statements.

## 45. OPERATING LEASES

### The Group as lessor

Property rental income earned during the year was approximately HK$6,702,000 (2007: HK$7,568,000). All of the properties held have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **4,308** | 2,546 |
| In the second to fifth years inclusive | **1,901** | 276 |
| | **6,209** | 2,822 |

### The Group as lessee

Minimum lease payments paid under operating lease in respect of office premises during the year was approximately HK$7,992,000 (2007: HK$6,008,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **9,407** | 9,268 |
| In the second to fifth years inclusive | **8,093** | 8,244 |
| Over five years | **2,754** | 3,289 |
| | **20,254** | 20,801 |

Operating lease payments represent rentals payable by the Group for certain of its office premises, production studios, training centres, warehouse and staff quarters. Leases for properties are negotiated for a term ranging from one to ten years with fixed rentals.

## 46. SHARE OPTIONS SCHEMES

### a. Share Option Scheme of the Company

The Company operates the share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or its associated companies. Eligible participants of the Scheme included Directors (including executive and non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates. The Scheme became effective on 7 June 2002, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of the passing of such resolution. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the Scheme at any time within 10 years from the date of the options granted. All options granted would vest immediately on the date of grant of options.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 46. SHARE OPTIONS SCHEMES (continued)

### a. Share Option Scheme of the Company (continued)

The following table discloses the details of the share options and movements in such holdings during the years ended 31 December 2008 and 2007:

**For the year ended 31 December 2008**

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2008 | Granted during the year | Exercised during the year | Lapsed during the year (Note (a)) | Balance as at 31.12.2008 |
| **Directors** | 23.8.2002 | 23.8.2002 – 6.6.2012 | HK$0.73 | 75 | – | – | – | 75 |
| | 6.3.2003 | 6.3.2003 – 5.3.2013 | HK$0.76 | 604 | – | – | – | 604 |
| | 19.1.2007 | 19.1.2007 – 18.1.2017 | HK$0.41 | 63,068,000 | – | – | – | 63,068,000 |
| | 22.1.2008 | 22.1.2008 – 21.1.2018 | HK$0.724 | – | 41,950,000 | – | – | 41,950,000 |
| **Employees** | 6.3.2003 | 6.3.2003 – 5.3.2013 | HK$0.76 | 1,330,000 | – | – | – | 1,330,000 |
| | 19.1.2007 | 19.1.2007 – 18.1.2017 | HK$0.41 | 8,200,000 | – | (1,000,000) | – | 7,200,000 |
| | 22.1.2008 | 1.7.2008 – 30.6.2018 | HK$0.724 | – | 40,000,000 | – | (40,000,000) | – |
| | | | | 72,598,679 | 81,950,000 | (1,000,000) | (40,000,000) | 113,548,679 |
| **Exercisable at the end of the year** | | | | | | | | 113,548,679 |
| **Weighted average exercise price** (HK$) | | | | 0.42 | 0.724 | 0.41 | 0.724 | 0.53 |

## 46. SHARE OPTIONS SCHEMES (continued)

### a. Share Option Scheme of the Company (continued)

For the year ended 31 December 2007

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2007 | Granted during the year | Transfer during the year (Note (b)) | Exercised during the year | Lapsed during the year | Balance as at 31.12.2007 |
| **Directors** | 23.8.2002 | 23.8.2002 – 6.6.2012 | HK$0.73 | 75 | – | – | – | – | 75 |
| | 6.3.2003 | 6.3.2003 – 5.3.2013 | HK$0.76 | 604 | – | – | – | – | 604 |
| | 19.1.2007 | 19.1.2007 – 18.1.2017 | HK$0.41 | – | 77,298,000 | (1,136,000) | (4,000,000) | (9,094,000) | 63,068,000 |
| **Employees** | 6.3.2003 | 6.3.2003 – 5.3.2013 | HK$0.76 | 1,330,000 | – | – | – | – | 1,330,000 |
| | 19.1.2007 | 19.1.2007 – 18.1.2017 | HK$0.41 | – | 15,200,000 | – | (7,000,000) | – | 8,200,000 |
| **Other participants** (Note (c)) | 19.1.2007 | 19.1.2007 – 18.1.2017 | HK$0.41 | – | 1,400,000 | 1,136,000 | (2,536,000) | – | – |
| | | | | 1,330,679 | 93,898,000 | – | (13,536,000) | (9,094,000) | 72,598,679 |
| **Exercisable at the end of the year** | | | | | | | | | 72,598,679 |
| **Weighted average exercise price** (HK$) | | | | 0.76 | 0.41 | 0.41 | 0.41 | 0.41 | 0.42 |

Notes:

(a) Such share 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.

(b) Transfer of share options upon resignation of a Director during that year.

(c) Other participants include persons who will or have contributed to the Company or any subsidiaries or any associated companies of the Company.

## 46. SHARE OPTIONS SCHEMES (continued)

### a. Share Option Scheme of the Company (continued)

No consideration received from employees for taking up the options granted for both years.

The closing price of the Company's shares on 22 January 2008 and 19 January 2007, the grant date of the 41,950,000 options and 93,898,000 options, was HK$0.68 per share and HK$0.41 per share, respectively. The fair value of the share options determined at the date of grant using the Binomial Option Valuation pricing model was approximately HK$10,869,000 and HK$14,949,000, respectively.

The following assumptions were used to calculate the fair value of share options:

| | **22 January 2008** | 19 January 2007 |
|---|---|---|
| Grant date share price | **HK$0.68** | HK$0.41 |
| Exercise price | **HK$0.724** | HK$0.41 |
| Option life | **10 years** | 10 years |
| Expected volatility | **60%** | 56% |
| Dividend yield | **Nil** | Nil |
| Risk-free interest rate | **2.78%** | 4.04% |

Expected volatility of the Company was determined by using the historical volatility of the Company's weekly average share prices over the past two 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 compensation expenses in respect of grant of the share options by the Company of approximately HK$10,869,000 for the year ended 31 December 2008 (2007: HK$14,949,000) was included in administrative expenses.

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

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme")

The GDC Scheme was adopted pursuant to a resolution passed at a special general meeting of GDC held on 18 July 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to GDC and its subsidiaries. The GDC 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 of GDC to the grantee but may not be exercised after the expiry of ten years from the date of offer of that opinion. Option is fully vested at the date of grant and a consideration of HK$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of GDC, and will not be less than the higher of the nominal value of the share on the date of offer, the closing price of GDC's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

The GDC Technology Scheme was adopted pursuant to a resolution passed at a special general meeting of GDC held on 19 September 2006 for the primary purpose of providing incentives or rewards to eligible participants for their contribution to GDC Technology, its subsidiaries and its holding companies (including intermediate and ultimate holding companies). The GDC Technology Share Scheme will remain in force for a period of 10 years to 18 September 2016.

Details of the GDC Scheme and the GDC Technology Scheme are disclosed in the section headed "Share Option Schemes" in the Report of the Directors.

During the year ended 31 December 2007, 48,300,000 options (2008: Nil) and 19,095,000 options (2008: Nil) had been granted under the GDC Scheme and the GDC Technology Scheme to the directors, employees and other participants of GDC, respectively. All options granted would vest immediately on the date of grant of options.

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme") (continued)

The following table sets out the movements in the share options of GDC during the year ended 31 December 2008:

| Category of grantees | Date of grant | Exercise period | Exercise price per share | Number of share options: Balance as at 1.1.2008 | Transferred to other category during the year | Transferred from other category during the year | Lapsed during the year | Balance as at 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| Directors of GDC | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.30 | 8,809,020 | (800,820) | – | – | 8,008,200 |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 28,170,000 | (490,000) | – | – | 27,680,000 |
| Employees of GDC | 22.3.2007 | 22.3.2007 – 21.3.2010 | HK$1.07 | 2,300,000 | – | – | – | 2,300,000 |
| | 4.4.2007 | 4.4.2007 – 3.4.2010 | HK$1.52 | 2,262,000 | – | – | – | 2,262,000 |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | 9,900,000 | – | – | – | 9,900,000 |
| Other participants (Note) | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.30 | 2,500,820 | – | 800,820 | (800,820) | 2,500,820 |
| | 4.4.2007 | 4.4.2007 – 3.4.2010 | HK$1.52 | 1,781,000 | – | – | – | 1,781,000 |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | – | – | 490,000 | (490,000) | – |
| **Totals** | | | | 55,722,840 | (1,290,820) | 1,290,820 | (1,290,820) | 54,432,020 |
| **Weighted average exercise price** (HK$) | | | | 2.09 | 1.23 | 1.23 | 1.23 | 2.11 |

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme") (continued)

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2008:

| Category of grantees | Date of grant | Exercise period | Exercise price per share | Number of share options: Balance as at 1.1.2008 | Lapsed during the year | Balance as at 31.12.2008 |
|---|---|---|---|---|---|---|
| **Directors of GDC** | 29.9.2006 | 29.9.2006 – 28.9.2009 | HK$0.145 | 3,333 | – | 3,333 |
| | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 17,445,000 | (165,000) | 17,280,000 |
| **Employees of GDC** | 5.10.2006 | 5.10.2006 – 4.10.2009 | HK$0.145 | 4,563,332 | (650,000) | 3,913,332 |
| | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | 1,650,000 | – | 1,650,000 |
| **Other participants** (Note) | 29.9.2006 | 29.9.2006 – 28.9.2009 | HK$0.145 | 1,173,333 | (320,000) | 853,333 |
| **Totals** | | | | 24,834,998 | (1,135,000) | 23,699,998 |
| **Weighted average exercise price** (HK$) | | | | 1.57 | 0.41 | 1.63 |

Note: Other participants mainly represent employees of the Group.

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme") (continued)

The following table sets out the movements in the share options of GDC during the year ended 31 December 2007:

| Category of grantees | Date of grant | Exercise period | Exercise price per share | Number of share options: Balance as at 1.1.2007 | Granted during the year | Exercised during the year | Balance as at 31.12.2007 |
|---|---|---|---|---|---|---|---|
| **Directors of GDC** | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.30 | 42,443,460 | – | (33,634,440) | 8,809,020 |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | – | 28,170,000 | – | 28,170,000 |
| **Employees of GDC** | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.30 | 14,200,000 | – | (14,200,000) | – |
| | 22.3.2007 | 22.3.2007 – 21.3.2010 | HK$1.07 | – | 3,000,000 | (700,000) | 2,300,000 |
| | 4.4.2007 | 4.4.2007 – 3.4.2010 | HK$1.52 | – | 2,890,000 | (628,000) | 2,262,000 |
| | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK$2.75 | – | 9,900,000 | – | 9,900,000 |
| **Other participants** | 6.10.2006 | 6.10.2006 – 5.10.2009 | HK$0.30 | 13,204,920 | – | (10,704,100) | 2,500,820 |
| (Note) | 4.4.2007 | 4.4.2007 – 3.4.2010 | HK$1.52 | – | 4,340,000 | (2,559,000) | 1,781,000 |
| **Totals** | | | | 69,848,380 | 48,300,000 | (62,425,540) | 55,722,840 |
| **Weighted average exercise price** (HK$) | | | | 0.30 | 2.46 | 0.37 | 2.09 |

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme") (continued)

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2007:

| Category of grantees | Date of grant | Exercise period | Exercise price per share | Balance as at 1.1.2007 | Granted during the year | Exercised during the year | Lapsed during the year | Balance as at 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of share options | | | | |
| **Directors of GDC** | 29.9.2006 | 29.9.2006 – 28.9.2009 | HK$0.145 | 10,563,334 | – | (10,560,001) | – | 3,333 |
| | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | – | 17,445,000 | – | – | 17,445,000 |
| **Employees of GDC** | 29.9.2006 | 29.9.2006 – 28.9.2009 | HK$0.145 | 7,466,666 | – | (7,466,666) | – | – |
| | 5.10.2006 | 5.10.2006 – 4.10.2009 | HK$0.145 | 5,313,332 | – | – | (750,000) | 4,563,332 |
| | 2.11.2007 | 2.11.2007 – 1.11.2012 | HK$2.00 | – | 1,650,000 | – | – | 1,650,000 |
| **Other participants** (Note) | 29.9.2006 | 29.9.2006 – 28.9.2009 | HK$0.145 | 1,173,333 | – | – | – | 1,173,333 |
| **Totals** | | | | 24,516,665 | 19,095,000 | (18,026,667) | (750,000) | 24,834,998 |
| **Weighted average exercise price** (HK$) | | | | 0.145 | 2.00 | 0.145 | 0.145 | 1.57 |

Note: Other participants mainly represent employees of the Group.

## 46. SHARE OPTIONS SCHEMES (continued)

### b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme") (continued)

The fair value per option of approximately HK$0.58, HK$0.86, HK$0.88 and HK$0.83 for options granted on 22 March 2007, 4 April 2007, 30 October 2007 and 2 November 2007, respectively, were calculated using the Binomial Option Valuation pricing model. The inputs into the model were as follows:

| | GDC | | | GDC Technology |
|---|---|---|---|---|
| | Share option at grant date | | | Share option at grant date |
| | 22 March 2007 | 4 April 2007 | 30 October 2007 | 2 November 2007 |
| Weighted average share price | HK$1.07 | HK$1.52 | HK$2.70 | HK$2.00 |
| Exercise price | HK$1.07 | HK$1.52 | HK$2.75 | HK$2.00 |
| Option life | 3 years | 3 years | 5 years | 5 years |
| Expected volatility | 89% | 97% | 68% | 51% |
| Dividend yield | Nil | Nil | Nil | Nil |
| Risk-free rate | 3.88% | 3.89% | 3.49% | 3.34% |

Expected volatility of GDC and GDC Technology were determined by using the historical volatility of GDC's share price and the share price of other companies in similar industries, respectively. The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Total expenses of approximately HK$57,402,000 (2008: Nil) were recognised by the Group for the year ended 31 December 2007 in relation to share options granted by GDC and GDC Technology.

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

## 47. RETIREMENT BENEFIT SCHEMES

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling approximately HK$105,000 (2007: HK$151,000) payable to the Retirement Schemes at 31 December 2008 are included in other payables and accruals. There was no forfeited contribution throughout two consecutive years.

## 48. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2008, the Group has entered into the following four transactions:

(a) On 23 December 2008, GDC Holdings entered into a conditional agreement with Southern International Limited (the "Borrower"), a company incorporated in Hong Kong with limited liability, and Keen Front Group Limited, the holding company of the Borrower which is incorporated in the British Virgin Islands, whereby:

(i) GDC Holdings agreed to, and/or procure its designated companies to, make available to the Borrower and/or its designated companies a loan facility in the maximum principal amount of RMB100,000,000 (equivalent to approximately HK$113,600,000) for the purposes of satisfying the obligations of 廣州市影逸廣告有限公司 ("Guangzhou Yingyi"), a company established under the laws of the PRC and is indirectly owned as to 80% by the Borrower, under the agreement entered into between Guangzhou Yingyi and 廣東珠江電影文化發展有限公司 in December 2008, pursuant to which Guangzhou Yingyi will be the sole advertising agent for the television channel of Guangdong Television Station for a 20-year period commencing from 1 July 2009 and as working capital of Guangzhou Yingyi. The loan, which carries interest at 6% per annum and matures on 30 June 2012, is secured by a charge in favour of GDC Holdings and/or its designated companies in respect of each of (i) the entire issued capital of the Borrower; (ii) the entire equity interest in 寧波影逸信息技術有限公司, which is a wholly-owned subsidiary of the Borrower established under the laws of the PRC; and (iii) 80% of the equity interest of Guangzhou Yingyi; and

## 48. POST BALANCE SHEET EVENTS (continued)

(a) (continued)

(ii) the Borrower agreed to grant to GDC Holdings and/or its designated companies the exclusive rights and options to subscribe for an aggregate of up to 60% of the enlarged issued share capital of the Borrower at an exercise price to be determined with reference to the audited consolidated financial statements of the Borrower in respect of each of the 12-month periods beginning on 1 July each year from 2009 to 2012.

As at 31 December 2008, the Group advanced a sum of RMB60,000,000 (equivalent to approximately HK$68,182,000) to the Borrower and its designated companies. The sum was recognised as an advance in the consolidated balance sheet.

The transaction was subsequently approved by the shareholders of the Company at the Special General Meeting of the Company held on 17 February 2009. Upon the agreement becoming effective, the advance formed part of the loan.

Details of the transaction are set out in the circular of the Company dated 23 January 2009.

(b) On 9 January 2009, the Group conditionally agreed to dispose of the intangible asset which represents the contractual rights to share a specific percentage of the box office receipts from certain cinemas in the PRC using 445 units of digital cinema equipment installed by the Group to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). The consideration should be payable by CFGC in cash to the Group in the following manner:

(i) a sum of RMB100,000,000 (equivalent to approximately HK$113,600,000) should be payable within 3 days upon the agreement became effective; and

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

- RMB50,000,000 (equivalent to approximately HK$56,800,000) shall be payable on or before 1 June 2009;
- RMB50,000,000 (equivalent to approximately HK$56,800,000) shall be payable on or before 1 September 2009; and
- RMB23,791,600 (equivalent to approximately HK$27,027,000) shall be payable on or before 1 December 2009.

## 48. POST BALANCE SHEET EVENTS (continued)

(b) (continued)

The transaction was subsequently approved by the shareholders of the Company at the Special General Meeting of the Company held on 17 February 2009 and part of the consideration of RMB100,000,000 (equivalent to approximately HK$113,600,000) was received from CFGC on 24 February 2009.

Details of the transaction are set out in the circular of the Company dated 23 January 2009.

The Directors are still estimating the potential impact of the transaction.

(c) On 30 January 2009, the Group entered into two agreements with an independent third party pursuant to which the Group would acquire two non-performing loans and interests accrued thereon with carrying amounts of approximately RMB41.5 million (equivalent to approximately HK$47.1 million) and RMB66.5 million (equivalent to approximately HK$75.6 million) for considerations of RMB9 million (equivalent to approximately HK$10.2 million) and RMB19 million (equivalent to approximately HK$21.6 million), respectively. Details of which are set out in the announcement of the Company dated 4 February 2009.

As at 31 December 2008, the Group advanced a sum of approximately RMB28 million (equivalent to approximately HK$32 million) to the vendor of the non-performing loans, 中國東方資產管理公司石家莊辦事處, an assets management company as advances for the agreements. The sum was recognised as advances in the consolidated balance sheet.

The Directors are still estimating the potential impact of the transaction.

(d) On 2 March 2009, Shougang Holding and Max Same Investment Limited, a company incorporated in Hong Kong which is a wholly owned subsidiary of Cheung Kong (Holdings) Limited and is interested in approximately 7.94% of the issued share capital of the Company approved a cap amount of HK$200 million for the construction by the Group of a building in Shenzhen, including the land cost, with a gross floor area of approximately 40,795 square meters. Details of the aforesaid arrangement are set out in the announcement of the Company dated 3 March 2009.

Up to the date of this report, the Group has entered into a contract for the mentioned construction for a consideration of approximately RMB168,800,000 (equivalent to approximately HK$191,800,000).

## 49. RELATED PARTY TRANSACTIONS

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

| | | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| (i) | Rental expenses charged by Winluck Properties Limited, a wholly-owned subsidiary of Shougang Holding | **–** | 1,615 |
| (ii) | Rental income received from Gold Regal Limited, an associate of Shougang Holding | **142** | 142 |
| (iii) | Consultancy expense charged by Shougang Holding | **960** | 960 |
| (iv) | Management fee charged by Shougang Concord International Enterprises Company Limited ("Shougang International"), an associate of Shougang Holding | **1,140** | 1,140 |
| (v) | Interest expense charged by Shougang (Hong Kong) Finance Company Limited, a wholly-owned subsidiary of Shougang Holding | **614** | 109 |
| (vi) | Interest expense paid to South China Leasing in respect of finance lease obligations | **–** | 58 |

At 31 December 2008, the Group's held-for-trading investments included listed securities of 13,870,000 shares (2007: 13,870,000 shares) of Shougang Concord Century Holdings Limited ("Shougang Century"), 13,766,000 shares (2007: 4,120,000 shares) of Shougang Concord Technology Holdings Limited ("Shougang Technology") and 230,000 shares (2007: 230,000 shares) of Shougang International. Shougang Century, Shougang Technology and Shougang International are associates of Shougang Holding.

## 49. RELATED PARTY TRANSACTIONS (continued)

### (b) Compensation of key management personnel

The remuneration of the Directors and other members of key management during the year was as follows:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Short-term benefits | **19,251** | 13,073 |
| Share-based payments | **10,869** | 56,581 |
| Post-employment benefit | **296** | 269 |
| | **30,416** | 69,923 |

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

During the year, 41,950,000 share options with an exercise price of HK$0.724 per share were granted to the Directors.

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government. The Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful. The Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 25 and 37.

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of principal subsidiaries at 31 December 2008 are as follows. The changes of subsidiaries as compared with 2007, were set out in note (f) for details:

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Direct subsidiary* | | | | |
| SCG Investment (BVI) Limited | BVI | HK$100,000 | 100% | Investment holding |
| *Indirect subsidiaries* | | | | |
| 首方投資管理(深圳)有限公司 | The PRC (Note (b)) | HK$230,000,000 | 100% | Investment holding |
| Concord Grand TV & Movie Investment Limited | BVI | US$1 | 100% | Investment holding |
| Dunley Developments Limited | BVI | US$1 | 100% | Investment holding |
| Durali Developments Limited | BVI | US$1 | 100% | Investment holding |
| GDC Asset Management Limited | BVI (Note (g)) | US$1 | 51% | Investment holding |
| GDC China Limited | Hong Kong (Note (g)) | HK$2 | 51% | Investment holding |
| GDC Digital Cinema Network Limited | BVI (Note (g)) | US$1 | 51% | Investment holding |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| GDC Digital Cinema Network Limited | Hong Kong (Note (f)) (Note (g)) | HK$1 | 51% | Deployment of digital cinema equipment |
| GDC Entertainment | BVI (Note (g)) | US$3,510 | 51% | Struck off |
| GDC Holdings | BVI (Note (g)) | US$5,214,181 | 51% | Investment holding |
| GDC International Limited | Samoa (Note (g)) | US$1 | 51% | Provision of CG animation creation and production services |
| GDC Management Services Limited | Hong Kong (Note (g)) | HK$2 | 51% | Provision of administrative and management services |
| GDC Technology | BVI (Note (g)) | HK$23,259,509 | 32% | Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| GDC Technology (Hong Kong) Limited | Hong Kong (Note (g)) | HK$2 | 32% | Provision of computing solutions for digital content distribution and exhibitions |
| GDC Technology Pte. Ltd. | Singapore (Note (g)) | S$900,000 | 32% | Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis |
| GDC Technology (USA), LLC | United States (Note (g)) | US$1,000 | 32% | Provision of computing solutions for digital content distribution and exhibitions |
| GDC (Note (c)) | Bermuda | HK$12,952,455 | 51% | Investment holding |
| Grand Award Limited | BVI | US$1 | 100% | Investment holding |
| Grand Park Investment Limited | Hong Kong | HK$2 | 100% | Property investment |
| Grand Phoenix Limited | BVI | US$1 | 100% | Investment holding |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| 環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited | The PRC (Note (b)) (Note (g)) | US$1,300,000 | 51% | Provision of CG animation training in the PRC |
| 環球數碼媒體科技研究(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited | The PRC (Note (b)) (Note (g)) | US$35,353,896 | 51% | Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC |
| Jeckman | BVI | US$16 | 100% | Investment holding |
| Linksky Limited | Hong Kong | HK$2 | 100% | Property holding |
| Long Cosmos Investment Limited | Hong Kong | HK$2 | 100% | Provision of administrative and management services |
| Lyre Terrace Management Limited | Hong Kong | HK$1,000,000 | 100% | Investment holding and property investment |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| On Hing Investment Company, Limited | Hong Kong | HK$1,000 (ordinary) HK$2,000,000 (non-voting deferred) | 100% | Property investment |
| SCG Finance Corporation Limited | Hong Kong | HK$20 | 100% | Provision of financial services |
| SCG Leasing Corporation Limited | Hong Kong | HK$2 | 100% | Property investment |
| Shongang GDC Media Holding Limited | Hong Kong (Note (g)) | HK$1 | 51% | Investment holding |
| South China Leasing | The PRC (Note (d)) | US$24,000,000 | 80% | Leasing of property, plant and equipment |
| Strenbeech Limited | BVI | HK$147,000,008 | 100% | Investment holding |
| 天津首方投資管理有限公司 | The PRC (Note (d)) (Note (f)) | RMB130,000,000 | 90% | Development of finance and assets investment and management |
| Tin Fung Investment Company, Limited | Hong Kong | HK$975,000 (ordinary) HK$210,000 (non-voting deferred) | 100% | Property investment |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| Upper Nice | BVI | US$1 | 100% | Investment holding |
| Valuework Investment Holdings Limited | BVI | US$1 | 100% | Investment holding |
| 四方源創國際影視文化傳播（北京）有限公司 | The PRC (Note (d)) | RMB20,000,000 | 80% | Production of films and television programme series |
| 廣東四方源創動畫制作有限公司 | The PRC (Note (d)) | RMB10,000,000 | 64% | Provision of graphic animation creation |
| 東陽市四方源創影視制作有限公司 | The PRC (Note (d)) | RMB1,000,000 | 80% | Production of films and television programme series |
| 東陽方源影視制作有限公司 | The PRC (Note (d)) (Note (f)) | RMB1,000,000 | 80% | Production of films and television programme series |
| 杭州四方源創動畫制作有限公司 | The PRC (Note (d)) | RMB3,000,000 | 64% | Provision of graphic animation creation |
| 深圳市環球數碼影視文化有限公司 | The PRC (Note (d)) (Note (g)) | RMB3,000,000 | 51% | Animation investment |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| 深圳市環球數碼科技有限公司 | The PRC (Note (d)) (Note (g)) | RMB3,000,000 | 32% | Provision of computing solutions for digital content distribution and exhibition |
| 重慶環球數碼動畫有限公司 | The PRC (Note (d)) (Note (f)) (Note (g)) | RMB5,500,000 | 51% | Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC |
| 深圳市南山區環球數碼培訓學校 | The PRC (Note (e)) (Note (g)) | RMB200,000 | 51% | Provision of CG and animation training in PRC |
| 上海環球數碼職業技能培訓學校 | The PRC (Note (e)) (Note (g)) | RMB200,000 | 51% | Provision of CG and animation training in the PRC |

## 50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ contributed capital (Note (a)) | Proportion of nominal value of issued share capital held by the Company | Principal activities |
|---|---|---|---|---|
| *Indirect subsidiaries (continued)* | | | | |
| 北京科創環球數碼技術有限公司 | The PRC (Note (d)) (Note (f)) (Note (g)) | RMB200,000 | 32% | Provision of computer solutions for digital content distribution and exhibition |

Note:

(a) All issued share capital are ordinary shares unless otherwise stated.

(b) These entities are wholly foreign owned enterprises.

(c) This entity is listed on the GEM.

(d) These entities are sino-foreign equity joint venture/enterprises or limited liability enterprises.

(e) These entities are school.

(f) The subsidiary was newly established/incorporated in current year.

(g) The subsidiaries were indirectly owned subsidiaries of the Group through shareholdings of GDC.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

# PARTICULARS OF MAJOR PROPERTIES

Details of the Group's major properties at the balance sheet date are as follows:

| LOCATION | | EXISTING USE | LEASE TERM | ATTRIBUTABLE INTEREST OF THE GROUP |
|---|---|---|---|---|
| **Investment properties** | | | | |
| 1. | Units A and B on all of 3rd, 6th and 9th Floors and 26 car parking spaces on 4th Floor, Tin Fung Industrial Mansion, 63 Wong Chuk Hang Road, Aberdeen, Hong Kong | Industrial | Long | 100% |
| 2. | 16th Floor and roof and car parking space nos. 7, 8 and 9, Manson Industrial Building, S.I.L. 739 A Kung Ngam Road, A Kung Ngam, Shaukeiwan, Hong Kong | Industrial | Long | 100% |
| 3. | Flat 55 on 15th Floor of Tower 8 (of Parkview Rise) and Carparking Space No.283 on Car Park Entrance 3 (Level 4) Hong Kong Parkview, No. 88 Tai Tam Reservoir Road, Tai Tam, Hong Kong | Residential | Long | 100% |
| 4. | Flat 9 on 23rd Floor and Flat 7 on 25th Floor, Apartment Tower on the Western Side, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong | Residential | Long | 100% |

| LOCATION | | EXISTING USE | LEASE TERM | ATTRIBUTABLE INTEREST OF THE GROUP |
|---|---|---|---|---|
| **Investment properties** (continued) | | | | |
| 5. | Flat 1612 of Block Q and Flat 2904 of Block R, Kornhill, Quarry Bay, Hong Kong | Residential | Long | 100% |
| 6. | Room 2907 on 29th Floor, West Tower, Shun Tak centre, Nos. 168-200 Connaught Road Central, Hong Kong | Commercial | Long | 100% |
| 7. | A space known as A35 on Ground Floor, Villa Verde, Guildford Road, The Peak, Hong Kong | Residential | Long | 100% |
| **Buildings** | | | | |
| 1. | Flat 2602 of Block N, Kornhill, Quarry Bay, Hong Kong | Residential | Long | 100% |
| 2. | Eight Offices on 23rd Floor, Times Financial Centre, No. 4001 Shennan Road, Futian District, Shenzhen, Guangdong Province, The People's Republic of China | Commercial | Long | 100% |

# FIVE-YEAR FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | **2008**<br>**HK$'000** |
| Revenue | 14,386 | 45,811 | 90,629 | 284,303 | **308,181** |
| Cost of sales | – | (43,666) | (53,670) | (193,371) | **(262,550)** |
| Write-down for production work in progress | – | (24,712) | – | – | **–** |
| Gross profit (loss) | 14,386 | (22,567) | 36,959 | 90,932 | **45,631** |
| Interest income from entrusted loan receivables | – | – | – | – | **3,674** |
| Other income | 849 | 4,564 | 9,732 | 23,369 | **12,035** |
| Distribution costs and selling expenses | – | (2,535) | (6,932) | (5,553) | **(14,240)** |
| Administrative expenses | (38,590) | (99,308) | (83,474) | (156,036) | **(128,233)** |
| Finance costs | (2,115) | (7,007) | (10,132) | (4,873) | **(6,046)** |
| Share of results of: | | | | | |
| Jointly controlled entity (net of amortisation of goodwill) | (71,134) | 428 | 1,531 | – | **–** |
| Associates | (5,853) | (248) | (1,073) | 7,255 | **(857)** |
| (Loss) gain on disposal of partial interests in subsidiaries | – | (12,345) | 26,506 | – | **–** |
| Gain on deemed disposal of an associate | 115 | – | – | – | **–** |
| Gain on distribution of an associate | 189,210 | – | – | – | **–** |
| Impairment loss in respect of goodwill of interest in a jointly controlled entity | (22,471) | – | – | – | **–** |
| Impairment loss in respect of goodwill arising from acquisition of a subsidiary | – | (191,457) | – | – | **–** |
| Increase (decrease) in fair value of investment properties | – | 14,400 | 8,500 | 31,130 | **(15,960)** |
| Discount on acquisition of additional interest in a subsidiary | – | – | – | 1,342 | **–** |
| Gain on disposal and dilution of interests in subsidiaries | – | – | – | 375,680 | **–** |
| Gain on disposal of interest in a jointly controlled entity | – | – | – | 61,039 | **–** |
| Changes in fair value of held-for-trading investments | – | (2,180) | 3,308 | 23,713 | **(30,011)** |
| Other expense | – | – | – | – | **(22,202)** |
| Profit (loss) before tax | 64,397 | (318,255) | (15,075) | 447,998 | **(156,209)** |
| Income tax credit (expense) | 3,259 | (2,372) | (1,103) | (6,785) | **(1,540)** |
| Profit (loss) for the year | 67,656 | (320,627) | (16,178) | 441,213 | **(157,749)** |
| Attributable to: | | | | | |
| Equity holders of the Company | 67,720 | (316,796) | (15,204) | 425,661 | **(119,446)** |
| Minority interests | (64) | (3,831) | (974) | 15,552 | **(38,303)** |
| | 67,656 | (320,627) | (16,178) | 441,213 | **(157,749)** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Total assets | 457,516 | 461,840 | 457,164 | 2,566,391 | **2,418,299** |
| Total liabilities | (113,738) | (253,437) | (235,601) | (1,598,035) | **(1,547,125)** |
| | 343,778 | 208,403 | 221,563 | 968,356 | **871,174** |
| Equity attributable to equity holders of the Company | 342,344 | 204,395 | 212,010 | 635,814 | **551,644** |
| Share options reserve of subsidiaries | – | – | 5,907 | 55,249 | **54,603** |
| Minority interests | 1,434 | 4,008 | 3,646 | 277,293 | **264,927** |
| | 343,778 | 208,403 | 221,563 | 968,356 | **871,174** |