

Interim Report 2009



**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

CORPORATE INFORMATION (Continued)

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

INTERIM RESULTS

The board of directors (the "Board") of Shougang Concord Grand (Group) Limited (the "Company") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

		Six months ended 30 June	
	Notes	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Revenue	3	216,048	111,029
Cost of sales		<u>(173,813)</u>	<u>(99,485)</u>
Gross profit		42,235	11,544
Interest income from entrusted loan receivables		2,352	-
Other income	4	13,793	6,410
Distribution costs and selling expenses		(5,633)	(6,655)
Administrative expenses		(57,538)	(56,462)
Increase in fair value of investment properties		5,950	13,440
Changes in fair value of held-for-trading investments		5,594	(24,854)
Finance costs	5	(2,056)	(2,562)
Share of loss of an associate		(289)	(662)
Other expense	6	-	(22,202)
Discount on acquisition of additional interest in a subsidiary	7	<u>2,154</u>	<u>-</u>
Profit (loss) before tax		6,562	(82,003)
Income tax expense	8	<u>(5,257)</u>	<u>(2,631)</u>
Profit (loss) for the period	9	1,305	(84,634)
Other comprehensive income:			
Exchange differences on translation of associates/subsidiaries		(56)	34,390
Total comprehensive income for the period		<u>1,249</u>	<u>(50,244)</u>
Profit (loss) for the period attributable to:			
Owners of the Company		941	(54,208)
Minority interests		364	(30,426)
		<u>1,305</u>	<u>(84,634)</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		922	(31,105)
Minority interests		327	(19,139)
		<u>1,249</u>	<u>(50,244)</u>
Earnings (loss) per share	11		
Basic		<u>HK0.08 cents</u>	<u>(HK4.71 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	88,499	60,510
Prepaid lease payments		7,437	7,512
Investment properties	12	131,150	125,200
Goodwill		52,935	52,935
Intangible asset	13	–	244,111
Available-for-sale investments	14	32,704	–
Interests in associates		21,567	21,856
Convertible loan receivable	15	115,818	–
Finance lease receivables	16	475,949	827,138
Entrusted loan receivables	17	1,541	25,499
Restricted bank deposits		77,688	66,069
Pledged bank deposit		19,585	665
Advances	18	–	126,547
		1,024,873	1,558,042
Current assets			
Inventories		33,638	21,904
Production work in progress		3,945	3,875
Amounts due from customers for contract work		3,135	16,935
Finance lease receivables	16	619,863	463,170
Entrusted loan receivables	17	50,837	26,879
Trade receivables	19	55,987	20,524
Prepayments, deposits and other receivables	20	171,646	22,957
Prepaid lease payments		152	156
Held-for-trading investments		32,788	85,668
Pledged bank deposit		2,808	2,808
Bank balances and cash		230,266	195,381
		1,205,065	860,257

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

At 30 June 2009

	Notes	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Current liabilities			
Amounts due to customers for contract work		1,023	1,763
Trade payables	21	30,528	8,117
Other payables and accruals		45,200	53,492
Income received in advance		46,388	38,108
Rental and management fee deposits received		1,071	1,189
Amount due to an associate	22	20,874	–
Tax liabilities		12,164	9,506
Borrowings	23	567,699	427,048
		724,947	539,223
Net current assets		480,118	321,034
Total assets less current liabilities		1,504,991	1,879,076
Capital and Reserves			
Issued capital	24	11,514	11,514
Retained earnings		383,635	382,689
Other reserves		157,422	157,441
Equity attributable to owners of the Company		552,571	551,644
Share options reserve of subsidiaries		54,598	54,603
Minority interests		232,738	264,927
Total equity		839,907	871,174
Non-current liabilities			
Income received in advance		12,323	16,393
Borrowings	23	591,297	930,248
Security deposits received		60,168	60,168
Deferred tax liabilities		1,296	1,093
		665,084	1,007,902
Total equity and liabilities		1,504,991	1,879,076

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Issued capital HK\$'000	Share premium reserve HK\$'000	Capital contribution reserve HK\$'000	Contributed surplus reserve HK\$'000	Translation reserve HK\$'000	Shares options reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Attributable to owners of the Company HK\$'000	Share options reserve of subsidiaries HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2008 (audited)	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	-	-	-	-	23,103	-	-	-	23,103	-	11,287	34,390
Loss for the period	-	-	-	-	-	-	-	(54,209)	(54,208)	-	(30,426)	(84,634)
Total comprehensive income for the period	-	-	-	-	23,103	-	-	(54,208)	(31,105)	-	(19,139)	(50,244)
Recognition of share-based payments	-	-	-	-	-	10,869	-	-	10,869	-	-	10,869
Exercise of share options	10	559	-	-	-	(159)	-	-	410	-	-	410
Reduction of share premium reserve (Note)	-	(425,259)	-	425,259	-	-	-	-	-	-	-	-
Elimination of deficit (Note)	-	-	-	(311,818)	-	-	-	311,818	-	-	-	-
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	7	7	(7)	-	-
At 30 June 2008 (unaudited)	11,514	559	445	115,576	40,605	23,504	(23,496)	447,288	615,995	55,242	258,154	929,391
Exchange differences on translation of associates/subsidiaries	-	-	-	-	248	-	-	-	248	-	(170)	78
Loss for the period	-	-	-	-	-	-	-	(65,238)	(65,238)	-	(7,877)	(73,115)
Total comprehensive income for the period	-	-	-	-	248	-	-	(65,238)	(64,990)	-	(8,047)	(73,037)
Cancellation of share options granted by subsidiaries	-	-	-	-	-	-	-	639	639	(639)	-	-
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	14,820	14,820
At 31 December 2008 and 1 January 2009 (audited)	11,514	559	445	115,576	40,853	23,504	(23,496)	382,689	551,644	54,603	264,927	871,174
Exchange differences on translation of subsidiaries	-	-	-	-	(19)	-	-	-	(19)	-	(37)	(56)
Profit for the period	-	-	-	-	-	-	-	941	941	-	364	1,305
Total comprehensive income for the period	-	-	-	-	(19)	-	-	941	922	-	327	1,249
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	5	5	(5)	-	-
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	5,816	5,816
Acquisition of additional interest in a subsidiary (note 7)	-	-	-	-	-	-	-	-	-	-	(38,332)	(38,332)
At 30 June 2009 (unaudited)	11,514	559	445	115,576	40,834	23,504	(23,496)	383,635	552,571	54,598	232,738	839,907

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2009*

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	155,165	(190,757)
INVESTING ACTIVITIES		
Proceeds from disposal of intangible asset, net of transaction costs	168,703	–
Interest received from entrusted loan receivables	2,352	–
Interest received	977	2,832
Proceeds from disposal of property, plant and equipment	892	–
Investment in a convertible loan receivable	(45,454)	–
Purchase of property, plant and equipment	(35,028)	(5,076)
(Increase) decrease in pledged bank deposits	(18,920)	5,044
(Increase) decrease in restricted bank deposits	(11,619)	58,623
Acquisition of additional interest in a subsidiary	(9,949)	–
Investment in available-for-sale investment	(568)	–
Repayment from an associate	–	1,053
Capital contribution to an associate	–	(21,084)
Acquisition of intangible asset	–	(1,798)
Prepaid lease payments made	–	(314)
NET CASH FROM INVESTING ACTIVITIES	51,386	39,280
FINANCING ACTIVITIES		
Repayment of borrowings	(213,073)	(186,933)
Advance from an associate	20,874	–
New borrowings raised	14,773	139,773
Capital contribution from minority shareholders	5,816	–
Repayment to a related party	–	(336)
Issue of shares from exercise of share options	–	410
Advance from a fellow subsidiary	–	100,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(171,610)	52,914
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,941	(98,563)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	195,381	463,561
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(56)	10,285
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	230,266	375,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties and certain financial instruments that are measured at fair values.

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

Hong Kong Financial Reporting Standard (“HKFRS”) 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group’s reportable segments (see note 3), but has had no impact on the reported results or financial position of the Group.

HKAS 1 (Revised in 2007) “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (Revised in 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised in 2007) has had no impact on the reported results or financial position of the Group.

The Group has not early applied any new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised in 2008) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised in 2008) 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 the financial position of the Group.

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

For the six months ended 30 June 2009

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”) in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group’s reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of the Group’s operating divisions. However, information reported to the Group’s Executive Directors, the CODM, for the purposes of resource allocation and assessment of performance is analysed further on each sub-group level. The Group’s reportable segments under HKFRS 8 are property leasing and building management services, digital content distribution and exhibitions, deployment of digital cinema network in Asia (a new division for the six months ended 30 June 2009), computer graphic (“CG”) creation and production, CG training courses, films and television programme production, finance leasing and assets management.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2009

3. SEGMENT INFORMATION (Continued) Six months ended 30 June 2009 (unaudited)

	Property leasing and building management services HK\$'000	Digital content distribution and exhibitions HK\$'000	Deployment of digital cinema network in Asia HK\$'000	CG creation and production HK\$'000	CG training courses HK\$'000	Films and television programme production HK\$'000	Finance leasing HK\$'000	Assets management HK\$'000	Consolidated HK\$'000
REVENUE									
External sales	3,363	130,709	-	21,002	9,345	2,047	49,582	-	216,048
RESULT									
Segment result	8,842	21,502	(1,953)	(16,662)	3,061	(8,322)	11,858	3,176	21,522
Investment revenue									2,220
Central administration costs									(20,429)
Changes in fair value of held-for-trading investments									5,594
Finance costs									(2,056)
Share of loss of an associate									(289)
Profit before tax									6,562

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2009

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2008 (unaudited and restated)

	Property leasing and building management services HK\$'000	Digital content distribution and exhibitions HK\$'000	CG creation and production HK\$'000	CG training courses HK\$'000	Films and television programme production HK\$'000	Finance leasing HK\$'000	Assets management HK\$'000	Consolidated HK\$'000
REVENUE								
External sales	3,062	12,699	12,519	6,024	11,036	65,689	-	111,029
RESULT								
Segment result	15,979	(41,770)	(7,965)	193	(1,524)	8,128	2,063	(24,896)
Investment revenue								2,267
Central administration costs								(31,296)
Changes in fair value of held-for-trading investments								(24,854)
Finance costs								(2,562)
Share of loss of an associate								(662)
Loss before tax								(82,003)

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

Segment result represents the profit earned or loss incurred by each segment without allocation of investment revenue, central administration costs, changes in fair value of held-for-trading investments, finance costs and share of loss of an associate. This is the measure reported to the Group's Executive Directors for the purposes of resources allocation and assessment of segment performance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

4. OTHER INCOME

Other income for the six months ended 30 June 2009 primarily comprises:

- Interest income from loans and receivables of approximately HK\$7,668,000 (Six months ended 30 June 2008: HK\$2,832,000);
- Gain of approximately HK\$2,543,000 (Six months ended 30 June 2008: Nil) on disposal of intangible asset to China Film Group Corporation ("CFG"), the majority shareholder of an associate of the Group at a consideration of RMB223,791,600 (equivalent to approximately HK\$254,227,000), of which RMB150,000,000 (equivalent to approximately HK\$170,455,000) has been settled during the period. The remaining balance is recognised as other receivable (see note 20) as at 30 June 2009. The disposal was approved by shareholders of the Company at the Special General Meeting on 17 February 2009. Details of the disposal are set out in the circular of the Company dated 23 January 2009; and
- Imputed interest income derived from the deferred consideration of the disposal of intangible asset of approximately HK\$2,062,000 (Six months ended 30 June 2008: Nil).

5. FINANCE COSTS

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank and other borrowings wholly repayable within five years	1,109	2,562
Interest on bank and other borrowings not wholly repayable within five years	947	–
	2,056	2,562

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

For the six months ended 30 June 2009

6. OTHER EXPENSE

Other expense for the six months ended 30 June 2008 represented a one-off payment to CFGC for acquisition of certain of its film distribution rights in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan).

7. DISCOUNT ON ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 20 August 2008, the Group entered into a conditional agreement with the minority shareholder of South China International Leasing Co., Ltd. ("South China Leasing"), a then 80% indirect owned subsidiary of the Company, 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). Details of this acquisition were set out in the circular of the Company dated 3 September 2008.

This acquisition was completed in April 2009 upon receiving the approval by the authority in the PRC and the new business license, and South China Leasing became an indirect wholly-owned subsidiary of the Company. The advance paid and direct transaction costs incurred in relation to this acquisition of approximately HK\$26,229,000 as at 31 December 2008 (note 18) formed part of the consideration thereafter and the Group pays the remaining consideration of approximately HK\$9,949,000 to the minority shareholder during the six months ended 30 June 2009.

The Group has ascertained the fair value of the net assets of South China Leasing in relation to the acquisition of additional interest in South China Leasing at the date of completion and concluded that the fair values of assets and liabilities of South China Leasing at that time did not have significant difference from their respective carrying amounts. Accordingly, discount on acquisition of additional interest in South China Leasing of approximately HK\$2,154,000 arose, which represented the excess of the Group's additional interest in the fair value of the net assets of South China Leasing over the consideration paid at the date of completion.

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

For the six months ended 30 June 2009

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
The PRC	5,072	1,380
Hong Kong	(18)	407
	5,054	1,787
Deferred taxation:		
Current period	203	844
	5,257	2,631

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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

For the PRC Enterprise Income Tax, the relevant tax rates for the Group's subsidiaries in the PRC for the period range from 20% to 25% (Six months ended 30 June 2008: 18% to 25%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

9. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Allowance for inventories	4,770	–
Allowance for (reversal of) doubtful debts	6,001	(230)
Amortisation of intangible asset (included in cost of sales)	633	14,098
Amortisation of prepaid lease payments	79	85
Depreciation of property, plant and equipment	6,318	5,713
Less: amounts included in contracts work in progress	(1,386)	(622)
	4,932	5,091

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 and 2008.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

11. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings (loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the period attributable to owners of the Company)	941	(54,208)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,151,392	1,151,008

There is no dilutive potential ordinary share arising from the Company's share options for the six months ended 30 June 2009 because the exercise prices of these share options are higher than the average market price for shares for the period.

There was no dilutive potential ordinary share arising from the Company's share options for the six months ended 30 June 2008 as the exercise of these share options would result in a decrease in the loss per share.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2009, the Group acquires property, plant and equipment of approximately HK\$35,028,000 (Six months ended 30 June 2008: HK\$5,076,000).

The fair value of the Group's investment properties at 30 June 2009 and 31 December 2008 has been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The resulting increase in fair value of investment properties of approximately HK\$5,950,000 (Six months ended 30 June 2008: HK\$13,440,000) has been recognised directly in the condensed consolidated statement of comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

13. INTANGIBLE ASSET

	Carrying value HK\$'000
At 1 January 2009 (audited)	244,111
Amortisation during the period	(633)
Disposals	(243,478)
	<hr/>
At 30 June 2009 (unaudited)	–
	<hr/> <hr/>

14. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Unlisted non-performing loans and interests	(i)	32,136	–
Unlisted equity interests	(ii)	568	–
		<hr/>	<hr/>
		32,704	–
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) On 30 January 2009, the Group entered into two agreements with 中國東方資產管理公司石家莊辦事處 (the "Vendor"), an independent third party pursuant to which the Group acquired two non-performing loans and interests accrued thereon with principal amounts of RMB23 million (equivalent to approximately HK\$26.1 million) and RMB30.54 million (equivalent to approximately HK\$34.7 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.

The advance of approximately RMB28 million (equivalent to approximately HK\$32.1 million) as at 31 December 2008 (note 18) to the Vendor became the investment costs which were then designated as available-for-sales investments thereafter and the fair value of the investment as at 30 June 2009 is estimated to appropriate its cost. Only after such time as the interest-in-suspense is no longer required, interest income will then be subsequently recognised using the effective interest method.

- (ii) The investment represents 5% equity interest in a private entity established in the PRC, and is measured at cost less impairment at each balance sheet date.

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

For the six months ended 30 June 2009

15. CONVERTIBLE LOAN RECEIVABLE

On 23 December 2008, the Group entered into a conditional agreement with Southern International Limited (the "Borrower") and its holding company whereby the Group agreed to advance a loan facility in the maximum principal amount of RMB100 million (equivalent to approximately HK\$113.6 million) (the "Loan Receivable") and the Borrower agreed to grant to the Group the exclusive rights and options to subscribe for an aggregate of up to 60% of the enlarged issued capital of the Borrower (the "Conversion Option"). Details of the transaction are set out in the circular of the Company dated 23 January 2009.

The transaction was approved by shareholders of the Company at the Special General Meeting of the Company on 17 February 2009, the advance of approximately HK\$68.2 million as at 31 December 2008 (note 18) formed part of the Loan Receivable thereafter and the Group advances the remaining approximately HK\$45.4 million to the Borrower during the six months ended 30 June 2009.

Since the entire instrument contained the Loan Receivable and the Conversion Option, the Group assessed the fair value of the Loan Receivable with reference to the prevailing market interest of similar non-convertible loans and appointed Messrs. Jones Lang LaSalle Sallmanns, an independent qualified professional valuer not connected with the Group, to ascertain the fair value of the Conversion Option. The Group concluded that the principal amount of the Loan Receivable approximated to its fair value at initial recognition. As the underlying shares are unquoted and the fair value of the Conversion Option cannot be reliably estimated, the entire instrument is carried at cost less impairment at both initial recognition and 30 June 2009.

As at 30 June 2009, the carrying amount of the convertible loan receivable of approximately HK\$115.8 million comprises principal amount of RMB100 million (equivalent to approximately HK\$113.6 million) and the accrued interest thereon. The convertible loan receivable is stated at amortised cost using the effective interest method at 6% per annum less any identified impairment losses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

16. FINANCE LEASE RECEIVABLES

	Minimum lease receipts		Present value of minimum lease receipts	
	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Finance lease receivables comprise:				
Within one year	695,086	543,315	619,863	463,170
In more than one year but not more than two years	288,876	530,174	263,872	492,351
In more than two years but not more than three years	141,233	209,746	130,240	193,068
In more than three years but not more than four years	83,899	115,246	80,718	108,464
In more than four years but not more than five years	705	33,278	569	32,409
More than five years	590	943	550	846
	1,210,389	1,432,702	1,095,812	1,290,308
Less: Unearned finance income	(114,577)	(142,394)	N/A	N/A
Present value of minimum lease receipts	1,095,812	1,290,308	1,095,812	1,290,308
Analysed as:				
Current finance lease receivables (receivable within 12 months)			619,863	463,170
Non-current finance lease receivables (receivable after 12 months)			475,949	827,138
			1,095,812	1,290,308

Effective interest rates of the above finance lease receivables range from approximately 6% to 16% (31 December 2008: 6% to 16%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

17. ENTRUSTED LOAN RECEIVABLES

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Entrusted loan receivables comprise:		
Within one year	50,837	26,879
In more than one year but not more than two years	1,541	25,272
In more than two years but not more than three years	–	227
	52,378	52,378
Less: Amounts due within one year shown under current assets	(50,837)	(26,879)
Amounts due after one year	1,541	25,499

18. ADVANCES

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Advances paid for:		
Agreement for a term loan facility and call options (<i>note 15</i>)	–	68,182
Agreements for acquisition of non-performing loans and interests (<i>note 14</i>)	–	32,136
Agreement for acquisition of additional interest in a subsidiary (<i>note 7</i>)	–	26,229
	–	126,547

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

19. TRADE RECEIVABLES

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Trade receivables	68,374	26,910
Less: Allowance for doubtful debts	(12,387)	(6,386)
	55,987	20,524

The Group allows different credit periods to its trade customers from 30 days to 90 days depending on the type of products or services provided.

The allowance for doubtful debts as at 30 June 2009 includes individually impaired trade receivables with an aggregate balance of approximately HK\$4,587,000 and HK\$7,800,000 in respect of which the customers are in financial difficulties or not fully satisfied with the quality of products produced by the CG creation and production division and the films and television programme production division, respectively, and the amounts are considered uncollectible.

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

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 90 days	55,378	8,302
91 – 180 days	508	8,527
Over 180 days	101	3,695
	55,987	20,524

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Other receivables as at 30 June 2009 primarily comprises:

- receivable of approximately RMB72,854,000 (equivalent to approximately HK\$82,789,000) due from CFGC in connection with the unsettled sale proceeds from the disposal of intangible asset. The amount is unsecured, non-interest bearing and will be settled by two instalments on or before 1 September 2009 and 1 December 2009, respectively. The amount is stated at amortised cost using the effective interest method at approximately 5% per annum. Details of the transaction are set out in the circular of the Company dated 23 January 2009; and
- receivable of approximately HK\$62,864,000 due from an independent third party for the assets management division. The amount is secured by a listed security in the PRC with market value of approximately HK\$89,872,000 as at 30 June 2009, interest bearing at 15% per annum and repayable on or before 24 December 2009.

21. TRADE PAYABLES

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

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 90 days	15,202	6,568
91 – 180 days	15,148	76
Over 180 days	178	1,473
	30,528	8,117

22. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

23. BORROWINGS

During the period, the Group obtained a new bank loan of approximately HK\$14.8 million (Six months ended 30 June 2008: HK\$139.8 million) and repaid borrowings of approximately HK\$213.1 million (Six months ended 30 June 2008: HK\$186.9 million) in accordance with the repayment terms. The new bank loan raised is denominated in Renminbi, secured by pledged of a property of the Group, carries interest at the People's Bank of China Renminbi Lending Rate per annum and is repayable within twelve months from the balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

24. ISSUED CAPITAL

	30 June 2009		31 December 2008	
	Number of shares (unaudited)	Nominal value HK\$'000 (unaudited)	Number of shares (audited)	Nominal value HK\$'000 (audited)
Ordinary share of HK\$0.01 each				
Authorised:				
At beginning and end of the period/year	2,000,000,000	20,000	2,000,000,000	20,000
Issued and fully paid:				
At beginning of the period/year	1,151,392,469	11,514	1,150,392,469	11,504
Exercise of share options	–	–	1,000,000	10
At the end of the period/year	1,151,392,469	11,514	1,151,392,469	11,514

25. PLEDGE OF ASSETS

As at 30 June 2009, 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\$162.0 million (31 December 2008: HK\$156.4 million) were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$169.5 million (31 December 2008: HK\$171.2 million).
- (ii) The Group's finance lease receivables with a carrying value of approximately HK\$1,069.7 million (31 December 2008: HK\$1,258.9 million) were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$989.5 million (31 December 2008: HK\$1,186.1 million).
- (iii) There were bank deposits of approximately HK\$77.7 million (31 December 2008: 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\$22.4 million (31 December 2008: 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

26. CONTINGENCIES AND COMMITMENTS

Capital commitments

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Capital expenditure contracted for but not provide in the condensed consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	180,505	8,350

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2009

26. CONTINGENCIES AND COMMITMENTS (Continued)

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 Coproduction Agreement. In the arbitration, issues had been raised by GDC Entertainment as to whether P&PM and/or WAMC were in repudiatory breach of the Coproduction 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.

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

Effective from 1 May 2008, GDC Entertainment had 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. In August 2009, both parties entered into a mutual settlement agreement and the court order for the cancellation of such claim was issued thereafter.

No provision for any potential liability has been made in the condensed consolidated financial statements for the six months ended 30 June 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

27. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Controlling shareholder:		
Consultancy expenses charged by Shougang Holding (Hong Kong) Limited ("Shougang Holding")	480	480
Associates of Shougang Holding:		
Management fee charged by Shougang Concord International Enterprises Company Limited ("Shougang International")	570	570
Rental income received from Gold Regal Limited	71	71
Subsidiary of Shougang Holding:		
Interest expense charged by Shougang (Hong Kong) Finance Company Limited	—	417

At 30 June 2009 and 31 December 2008, the Group's held-for-trading investments included listed securities of 13,870,000 shares of Shougang Concord Century Holdings Limited ("Shougang Century"), 13,766,000 shares of Shougang Concord Technology Holdings Limited ("Shougang Technology") and 230,000 shares of Shougang International. Shougang Century, Shougang Technology and Shougang International are associates of Shougang Holding.

28. POST BALANCE SHEET EVENT

On 13 August 2009, the Group entered into a sale and purchase agreement and a lease agreement with an independent third party pursuant to which the Group would purchase a 200,000 tonnes high-end containerboard production line for a consideration of RMB150 million (equivalent to approximately HK\$170.45 million) and then leaseback for a term of 5 years and with interest at 20% premium above the 5-year base lending rate announced by the People's Bank of China. Details of which are set out in the announcement of the Company dated 13 August 2009.

INDEPENDENT REVIEW REPORT

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

We have reviewed the interim financial information set out on pages 4 to 27, which comprises the condensed consolidated statement of financial position of Shougang Concord Grand (Group) Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended and certain explanatory notes. The Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong, 7 September 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the six months ended 30 June 2009 was approximately HK\$216,048,000, when compared with that of approximately HK\$111,029,000 for the corresponding period in the year 2008, represented an increase of approximately 95%. The increase was mainly attributable to increase in revenue earned by the digital content distribution and exhibitions division and the computer graphic ("CG") creation and production division by approximately HK\$118,010,000 and HK\$8,483,000, respectively, netting off with less finance lease income earned by the finance leasing division by approximately HK\$16,107,000.

Cost of sales for the six months ended 30 June 2009 amounted to approximately HK\$173,813,000, when compared with that of approximately HK\$99,485,000 for the corresponding period in the year 2008, represented an increase of approximately 75%.

The Group made a gross profit of approximately HK\$42,235,000 for the six months ended 30 June 2009, representing a gross profit margin of approximately 20%. Comparing with the gross profit margin of approximately 10% for the corresponding period in the year 2008, the improvement was mainly due to the digital content distribution and exhibitions division sold more digital cinema equipment, which was at a higher margin, during this period and decrease in amortisation of intangible asset in the amount of cost of sales by approximately HK\$13,465,000.

Other income for the six months ended 30 June 2009 amounted to approximately HK\$13,793,000 (Six months ended 30 June 2008: HK\$6,410,000), representing an increase of approximately 115%. The increase was mainly due to increase in interest income by approximately HK\$4,836,000, and the amount for this period included a gain of approximately HK\$2,543,000 on disposal of intangible asset to China Film Group Corporation ("CFG") upon termination of the cooperation with 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) and the relevant imputed interest income derived from the deferred consideration of approximately HK\$2,062,000.

Administrative expenses for the six months ended 30 June 2009 amounted to approximately HK\$57,538,000 (Six months ended 30 June 2008: HK\$56,462,000), representing a slight increase of approximately 2%.

Other expense of approximately HK\$22,202,000 for the six months ended 30 June 2008 represented a one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC during that period.

Overall, the Group recorded profit of approximately HK\$941,000 for the six months ended 30 June 2009 attributable to owners of the Company, when compared with that loss of approximately HK\$54,208,000 for the corresponding period in the year 2008.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW AND OUTLOOK

Cultural Recreations Content Provision and Distribution

Digital content distribution and exhibitions

Attributed by breakthrough in the United States and other Asian markets such as South Korea and return of orders from the PRC, more digital cinema equipment were sold and the digital content distribution and exhibitions division reported a more than nine-fold increment in revenue to approximately HK\$130,709,000 for the six months ended 30 June 2009, when compared with that for the corresponding period in the year 2008. Since the set up of its office in the United States in late 2007, the Group has begun its sales and marketing activities to build up a sales network with key resellers there and signed agreements with the two largest cinema service providers to offer services through their networks in the United States. Sales of approximately 250 units of digital cinema servers were made in the United States during this period. In the PRC, upon termination of the cooperation with CFGC as mentioned above, the Group has been actively marketing its products to other key cinema chains landing orders from three key cinema chains in the PRC during this period.

The Group continues to market its products through participation in international trade exhibitions and high profile demonstration projects. In March 2009, the Group attended ShoWest 2009 with a strong line of product offerings which included an enhanced version of its best-selling digital cinema server, SA2100A, as well as its theatre management system, TMS1000. In April 2009, the Group also completed the integration of a 3D EQ technology to its digital cinema server. This new feature can significantly save the film distributors millions of dollars by adopting Digital Cinema Initiative (“DCI”) requirement of a single 3D DCP format for digital cinema distribution. Together with other products for digital cinema mastering, cinema digital signage and integrated projection system, the Group is capable of offering exhibitors an all-round digital cinema solution and developing products that aim at meeting more than the standard DCI specifications, and can differentiate its technology from its competitors.

According to key industrial reports, the Hollywood studios are now supplying nearly all of their contents in the United States in digital format apart from a few specialised films. Together with more 3D titles coming, the digital cinema conversion worldwide begins and will take at least 5 years to complete.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW AND OUTLOOK (Continued)

Cultural Recreations Content Provision and Distribution (Continued)

Deployment of digital cinema network in Asia

In Asia (outside of the PRC), the Group has reached separate non-exclusive virtual print fee (“VPF”) agreements with five of the six major Hollywood studios for digital cinema deployment, 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 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. At present, the Group is in negotiation with exhibitors for moving forward with the VPF program and expects deployment of the digital cinema equipment will begin in the second half of this year.

CG creation and production

Despite the global economy downturn, increase in CG production orders made the CG creation and production division recorded revenue growth by approximately 68% to approximately HK\$21,002,000 for the six months ended 30 June 2009 as compared with that of the corresponding period in the year 2008. At present, there are seven CG production projects in progress, including films, DVD and television series, the customers come from North America, Europe and Australia. However, the Group was in discussion with one of the customers for adjustment on the completion deadline and content of an individual project, and made some allowance during this period due to this uncertainty. Nevertheless, revenue generated from this division for the whole year 2009 is still expected to be more than last year.

Besides, two of the seven projects are co-production with large European and American animation content production and distribution companies, in which the Group has sole distribution right in the Chinese-speaking region and can share certain percentage from the global distribution. These partners actively work with the Group to insert “Chinese element” to these global projects, and the Group is proud of using the strong economic base and extensive distribution channels of these large children’s entertainment content production companies to introduce Chinese culture to children around the world. The Group is looking forward to these new contents bringing reasonable return to the Group and its partners.

To deal with business growth and increase market share, the Group’s subsidiary in Chongqing has already commenced its production and employed more than 140 employees. The production centres in Shenzhen and Chongqing are now using advanced network and IT technology to establish an integrated operation platform so that employees, facilities and management system at these two locations can interflow together. This multi-site CG production increases the Group’s ability in the CG business to expand the capacity and price adjustment, the Group can react promptly to changes in the market.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW AND OUTLOOK (Continued)

Cultural Recreations Content Provision and Distribution (Continued)

CG creation and production (Continued)

In addition, providing technical support and joint distribution with CFGC, the Group released a Belgium 3D animation film “Fly Me to the Moon” in 250 digital cinema multiplies across the PRC since 28 May 2009. The Group’s full-length feature CGI film “Happy Little Submarines”, which released in the PRC previously, was awarded as the “Best CGI Animation Film” of “Handsome Monkey Award” in the 5th China International Animation and Comic Festival. The Group’s progress in CG business is also recognised by the PRC government, the subsidiary of the Group in Shenzhen was granted “Key National Enterprises for Cultural in Shenzhen” in April 2009 and “2009 China Top 100 Growing Service Providers” in June 2009.

The Group is also actively developing new clients, several projects with world leading entertainment bands for animated television series and films are under negotiation. Many clients have expressed the desire for long-term and multi-project relationship with the Group based on the demonstrated track record of providing reliable, cost effective, high quality CG production services to international market.

CG training

The CG training division continued to serve as a core component of its strategy towards professionalism and strengthening the training materials, recorded nearly 100% employment of the graduates continuously for several classes, and received more support from the PRC government. This division is able to achieve an “Upstream” result under the financial crisis and recorded steady growth in revenue of approximately 55% for the six months ended 30 June 2009 when compared with that of the corresponding period in the year 2008.

After completion of upgrading the existing training courses for the knowledge of CG production, on-line and other games, the Group has organised new professional training programmes for other areas, including after effects, virtual reality and case studies for animation to cope with the market needs. Besides, the Group continues to co-operate with famous high schools in the PRC for organising “Skill and Qualification” training programme to their students to achieve their aim to get “One Course, Several Certificates”, and to train up their practical skills to get ready for work immediately 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 set up a new direct operation training site in Guangzhou and plans to set up one more site in the North to cover all four corners of the PRC. At the same time, the Group will further develop its training network to those areas in the PRC with developed animation industry.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 businesses, the Group would proactively grasp the development opportunities by providing clients consultancy service on investing in high potential businesses. Other than the finance and assets investment and management business which the Group has acquired the two non-performing loans, the Group plans to invest in and manage an agriculture fund.

Finance leasing

During the six months ended 30 June 2009, due to further improving its credit procedures for both existing and new finance leases in order to minimise the risk and better cost control, the finance leasing division recorded a growth in the segment result by approximately 46% to approximately HK\$11,858,000 when compared with that of the corresponding period in the year 2008. Besides, all outstanding finance lease receivables as at 30 June 2009 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.

In addition, the Group completed the acquisition of the remaining 20% equity interest in the registered capital of the subsidiary operating this division during this period, this 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.

In view of the coming recovery of the global economy and introducing a number of measures to stimulate its economic growth by the central government in the PRC, economy of the PRC continues to bloom and the finance leasing business in the PRC will further expand. Up to present, the amount of contracts newly entered by this division amounted to approximately HK\$235,795,000. The Group will also continue focusing on finance leasing of large development projects and explore different financing methods to lower its finance costs.

Property Investment and Management

The property leasing and building management fee income for the six months ended 30 June 2009 increased by approximately 10% and the resalable value of the Group's investment properties have also been improved during this period. The Group was receiving stable cash flow from rental income and expected that the investment properties would continue to contribute stable cash return in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group had bank balances and cash of approximately HK\$230.3 million (31 December 2008: HK\$195.4 million), restricted bank deposits of approximately HK\$77.7 million (31 December 2008: HK\$66.1 million) and pledged bank deposits of approximately HK\$22.4 million (31 December 2008: HK\$3.5 million) which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase was mainly from net proceeds from disposal of intangible asset of approximately HK\$168.7 million, net cash from operating activities of approximately HK\$155.2 million and advance from an associate of approximately HK\$20.9 million, netting off with net repayment of borrowings of approximately HK\$198.3 million, investment in a convertible loan receivable of approximately HK\$45.5 million and purchase of property, plant and equipment of approximately HK\$35.0 million.

As at 30 June 2009, the Group's borrowings amounted to approximately HK\$1,159.0 million, of which approximately HK\$567.7 million were repayable within twelve months from 30 June 2009 and approximately HK\$591.3 million were repayable after twelve months from 30 June 2009. All loans bore interest at market rates.

Gearing ratio (calculated as borrowings net of bank balances and cash, restricted bank deposits and pledged bank deposits divided by total equity) as at 30 June 2009 was approximately 99% (31 December 2008: 125%). As at 30 June 2009, the Group has current ratio of approximately 166% (31 December 2008: 160%) based on current assets of approximately HK\$1,205.1 million and current liabilities of approximately HK\$724.9 million. The Group's leverage improved was mainly attributable to net proceeds received and receivable from disposal of intangible asset, and profit for the period.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to approximately HK\$552.6 million as at 30 June 2009 (31 December 2008: HK\$551.6 million). The increase was mainly due to profit for the six months ended 30 June 2009 attributable to owners of the Company of approximately HK\$941,000.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than acquisition of additional interest in a subsidiary as disclosed in note 7 to the condensed consolidated financial statements, the Group had no material acquisitions, disposals and significant investment during the six months ended 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

CHARGE ON ASSETS

As at 30 June 2009, 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\$162.0 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$169.5 million.
- (ii) The Group's finance lease receivables with a carrying value of approximately HK\$1,069.7 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$989.5 million.
- (iii) There were bank deposits of approximately HK\$77.7 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\$22.4 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 30 June 2009, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 26 to the condensed consolidated financial statements about litigations proceeding, the Group had no significant contingent liabilities as at 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

EMPLOYEES

As at 30 June 2009, the Group employed 722 (31 December 2008: 699) 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 six months ended 30 June 2009, the Company and its subsidiaries had not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2009 (2008: Nil).

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

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

The Directors of the Company who held office at 30 June 2009 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2009 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30.06.2009
		Interests in shares	Interests under equity derivatives*	Total interests	
Wang Qinghai	Beneficial owner	-	11,368,000	11,368,000	0.99%
Cao Zhong	Beneficial owner	-	22,868,000	22,868,000	1.99%
Chen Zheng	Beneficial owner	-	18,368,000	18,368,000	1.60%
Wang Tian	Beneficial owner	4,000,000	11,094,000	15,094,000	1.31%
Yuan Wenxin	Beneficial owner	4,000,000	15,094,000	19,094,000	1.66%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	19,368,679	27,646,679	2.40%
Tam King Ching, Kenny	Beneficial owner	-	2,286,000	2,286,000	0.20%
Zhou Jianhong	Beneficial owner	-	2,286,000	2,286,000	0.20%
Yip Kin Man, Raymond	Beneficial owner	-	2,286,000	2,286,000	0.20%

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

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS
IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)**
(b) Long positions in the shares and underlying shares of Global Digital Creations Holdings Limited ("GDC"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC			Total interests	Total interests as to % to the issued share capital of GDC as at 30.06.2009
		Interests in shares	Interests under equity derivatives*	Total interests		
Cao Zhong	Beneficial owner	26,942,200	4,900,000	31,842,200	2.46%	
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	20,008,200	4,900,000	24,908,200	1.92%	
Zhou Jianhong	Beneficial owner	500,615	-	500,615	0.04%	

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

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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech			Total interests as to % to the issued share capital of GDC Tech as at 30.06.2009
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%

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

Save as disclosed above, as at 30 June 2009, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2009.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2009, 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 issued share capital of the Company as at 30.06.2009	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	489,450,710	42.50%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	430,491,315	37.38%	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	11.55%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	91,491,193	7.94%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	133,048,717	11.55%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	133,048,717	11.55%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	133,048,717	11.55%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	133,048,717	11.55%	3

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

Notes:

1. Shougang Holding indicated in its disclosure form dated 28 September 2007 (being the latest disclosure form filed up to 30 June 2009) that as at 25 September 2007, its interests included 430,491,315 and 58,959,395 shares of the Company held by Wheeling and Prime Success respectively, both were wholly-owned subsidiaries of Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 26 February 2005 (being the latest disclosure form filed up to 30 June 2009) that as at 23 February 2005, its interests included 91,491,193 shares of the Company held by Max Same, a wholly-owned subsidiary of Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

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

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

Save as disclosed above, as at 30 June 2009, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

(a) Share options of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2009. Details of outstanding share options under the Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Wang Qinghai	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
Cao Zhong	11,368,000 11,500,000	19.01.2007 22.01.2008	19.01.2007 – 18.01.2017 22.01.2008 – 21.01.2018	HK\$0.410 HK\$0.724
	22,868,000			
Chen Zheng	11,368,000 7,000,000	19.01.2007 22.01.2008	19.01.2007 – 18.01.2017 22.01.2008 – 21.01.2018	HK\$0.410 HK\$0.724
	18,368,000			
Wang Tian	5,094,000 6,000,000	19.01.2007 22.01.2008	19.01.2007 – 18.01.2017 22.01.2008 – 21.01.2018	HK\$0.410 HK\$0.724
	11,094,000			
Yuan Wenxin	9,094,000 6,000,000	19.01.2007 22.01.2008	19.01.2007 – 18.01.2017 22.01.2008 – 21.01.2018	HK\$0.410 HK\$0.724
	15,094,000			

SHARE OPTIONS (Continued)

(a) Share options of the Company (Continued)

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Directors of the Company (Continued)				
Leung Shun Sang, Tony	75	23.08.2002	23.08.2002 – 06.06.2012	HK\$0.730
	604	06.03.2003	06.03.2003 – 05.03.2013	HK\$0.760
	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	8,000,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	19,368,679			
Tam King Ching, Kenny	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	2,286,000			
Zhou Jianhong	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	2,286,000			
Yip Kin Man, Raymond	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	1,150,000	22.01.2008	22.01.2008 – 21.01.2018	HK\$0.724
	2,286,000			
	105,018,679			
Employees of the Group	1,330,000	06.03.2003	06.03.2003 – 05.03.2013	HK\$0.760
	7,200,000	19.01.2007	19.01.2007 – 18.01.2017	HK\$0.410
	8,530,000			
	113,548,679			

SHARE OPTIONS (Continued)**(b) Share options of a subsidiary of the Company – GDC**

On 18 July 2003, the GDC Scheme which complies with the requirements of Chapter 23 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange was adopted by the shareholders of GDC. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the GDC Scheme during the six months ended 30 June 2009. Details of outstanding share options under the GDC Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Cao Zhong	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Chen Zheng	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Leung Shun Sang, Tony	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	14,700,000			
Employees of the Group				
	9,708,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK\$1.07
	3,323,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	21,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	37,231,200			
Other participants				
	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	720,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	980,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	2,500,820			
	54,432,020			

SHARE OPTIONS (Continued)**(c) Share options of a subsidiary of the Company – GDC Tech**

On 19 September 2006, the GDC Tech Scheme was adopted by the shareholders of GDC and the Company. No share option was granted, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the six months ended 30 June 2009. Details of movements in the share options under the GDC Tech Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
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 OPTIONS (Continued)

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

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
Employees of the Group	853,333	–	853,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	3,913,332	(360,000) ³	3,553,332	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
	6,416,665	(360,000)	6,056,665			
Other participants	330,000	–	330,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
	23,699,998	(360,000)	23,339,998			

Notes:

- The number of share options granted to Mr. Leung Shun Sang, Tony on 29 September 2006 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of GDC and the Company on 19 September 2006 respectively.
- The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of GDC and the Company on 30 October 2007 respectively.
- The share options were held by a grantee who ceased to be an employee of the Group during the period and such share options were lapsed on 8 March 2009.

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2009 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 27 August 2009 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2009.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2009, 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 specific 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. However, they will voluntarily retire and offer themselves for re-election at least once every three years in order to comply with the second part of code provision A.4.2 of the Code.

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

The Chairman of the Board had not attended the annual general meeting of the Company held on 1 June 2009 (the “Meeting”) as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors’ securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions throughout the six months ended 30 June 2009.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

There is no change in the directors' information which is required to be disclosed pursuant to Rule 13.51B(1) of 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.

APPRECIATION

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

By Order of the Board

Cao Zhong

Vice Chairman and Managing Director

Hong Kong, 7 September 2009