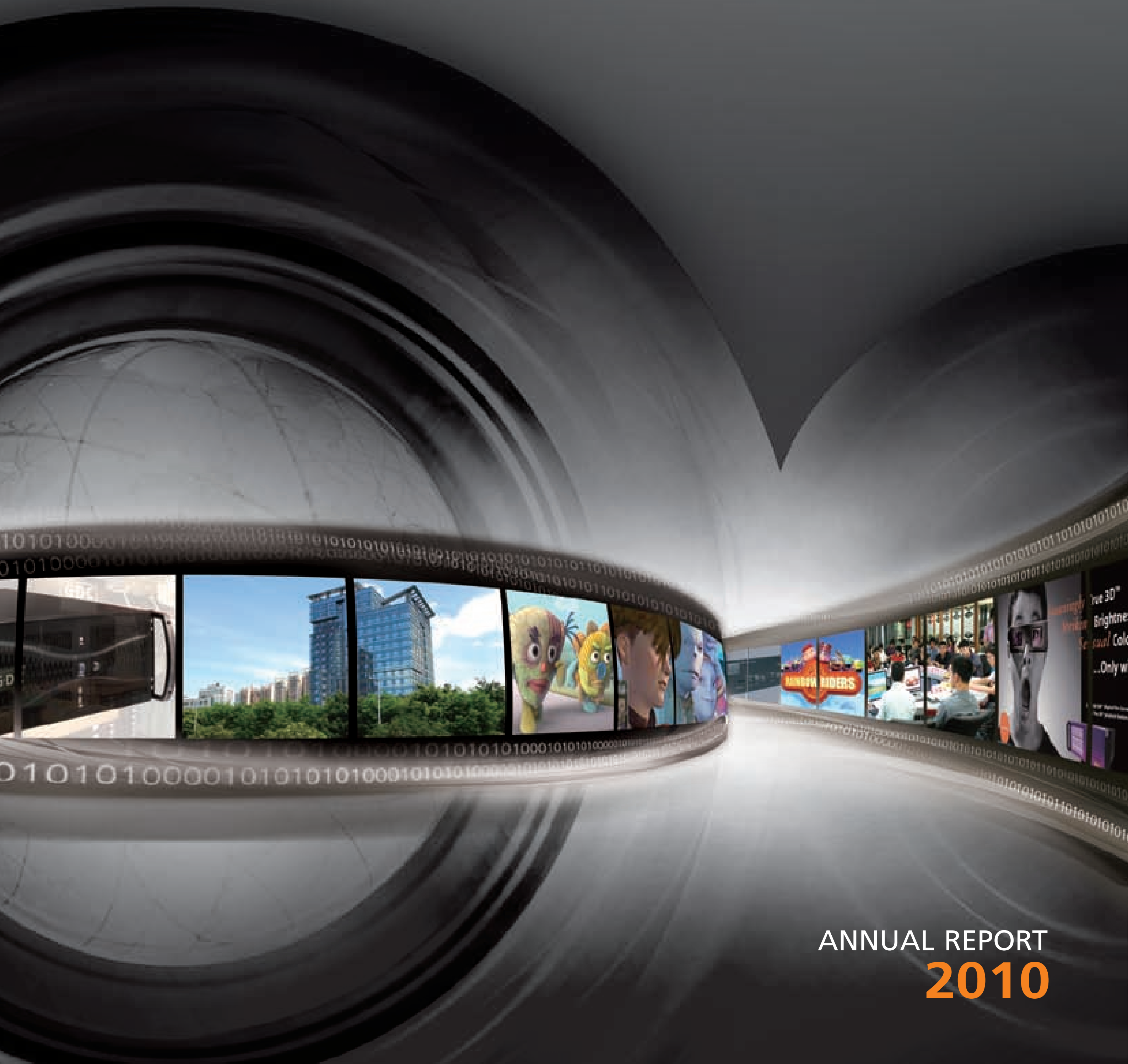
Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)



ANNUAL REPORT

2010

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS

MISSION STATEMENT

We are the pioneers in a new technology and industry.

There are many problems and difficulties in our way.

We will conquer and overcome.

We believe our future will rest on the people that we train and nurture today. Together working as a team, we will build and lead the digital content development industry in Asia.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Shaofeng *(Chairman)*
Mr. Chen Zheng *(Managing Director)*
Mr. Jin Guo Ping *(Deputy Managing Director)*

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

EXECUTIVE COMMITTEE

Mr. Li Shaofeng *(Chairman)*
Mr. Chen Zheng
Mr. Jin Guo Ping

AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

NOMINATION COMMITTEE

Mr. Li Shaofeng *(Chairman)*
Mr. Leung Shun Sang, Tony *(Vice Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

REMUNERATION COMMITTEE

Mr. Leung Shun Sang, Tony *(Chairman)*
Mr. Li Shaofeng *(Vice Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

COMPLIANCE OFFICER

Mr. Chen Zheng

COMPANY SECRETARY

Mr. Chiu Ming Kin

AUTHORISED REPRESENTATIVES

Mr. Chen Zheng
Mr. Chiu Ming Kin

AUDITOR

Deloitte Touche Tohmatsu

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1-7, 20/F, Kodak House II
39 Healthy Street East
North Point
Hong Kong

STOCK CODE

8271

WEBSITE

www.gdc-world.com

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Shaofeng, aged 44, he holds a Bachelor's Degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed as an Executive Director and the Chairman, the Chairman of each of the Executive Committee and the Nomination Committee and the Vice Chairman of the Remuneration Committee of the Company in May 2010. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding") in 1989 and is currently the vice chairman and the general manager of Shougang Holding. Currently, He is an executive director and the chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International"), the managing director and the chairman of Shougang Concord Century Holdings Limited ("Shougang Century"), an executive director and the chairman of Shougang Concord Technology Holdings Limited ("Shougang Technology") and a non-executive director of Sinocop Resources (Holdings) Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of each of Wheeling Holdings Limited and Upper Nice Assets Ltd. ("Upper Nice"), both are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Li has extensive experience in management and investment of listed companies, sino-foreign joint ventures and steel industry.

Mr. Chen Zheng, aged 51, engineer and senior economist. He holds a bachelor's degree in chemical engineering and a master's degree in business administration. Mr. Chen was appointed as an Executive Director of the Company in February 2005 and is currently the Managing Director of the Company. He is also a member of the Executive Committee of the Company. Mr. Chen was also appointed as an executive director of Shougang Grand in January 2004 and was designated as the managing director of operations of Shougang Grand in February 2006. He is also a director of Upper Nice. Mr. Chen has extensive experience in investment business and corporate management.

Mr. Jin Guo Ping, aged 52, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed as an Executive Director and the Vice President of the Company in February 2006 and is currently the Deputy Managing Director of the Company. He is also a member of the Executive Committee of the Company. Mr. Jin is an ordinary committee member of China Animation Association. Mr. Jin was a director of Shanghai Animation Film Studio, the chairman of Shanghai Yilimei Animation Company Limited, the chairman of Shanghai Cartoon Cultural Developing Co. Ltd., a publisher of "Cartoon King" Magazine, the vice president of Shanghai Film Group Corporation, the vice chairman of Shanghai United Circuit Co., Ltd, a director of Shanghai Paradise Corporation Ltd and the assistant director of broadcasting of Shanghai Television. Mr. Jin has extensive experience in animation and film industries. With effect from 21 May 2010, he has been appointed as a member of the Shenzhen Committee of the Chinese People's Political Consultative Conference.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Leung Shun Sang, Tony, aged 68. Mr. Leung was appointed as a Non-executive Director of the Company in December 2005. He is also the Chairman of the Remuneration Committee and the Vice Chairman of the Nomination Committee of the Company. Mr. Leung is a non-executive director of each of Shougang Grand, Shougang International, Shougang Technology, Shougang Century and Fushan International Energy Group Limited. Mr. Leung is the managing director of CEF Group. He holds a master's degree in business administration from New York State University and has over 40 years of experience in finance, investment and corporate management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

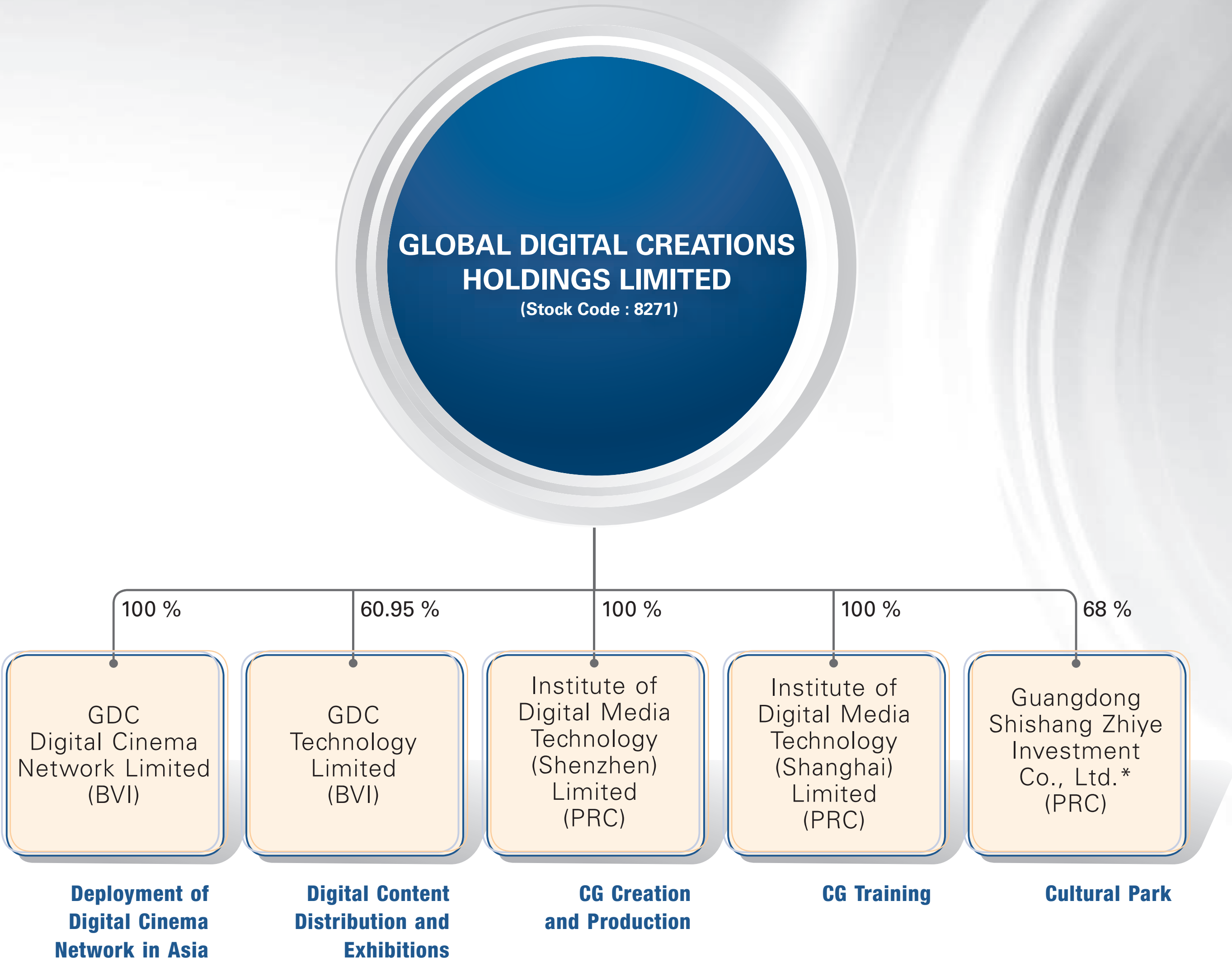
Mr. Kwong Che Keung, Gordon, aged 61. Mr. Kwong was appointed as an Independent non-executive Director of the Company in April 2003. He is also the Chairman of the Audit Committee, a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies including, COSCO International Holdings Limited, Beijing Capital International Airport Company Limited, NWS Holdings Limited, OP Financial Investments Limited, China Chengtong Development Group Limited, Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited and CITIC 1616 Holdings Limited. He was an independent non-executive director of Ping An Insurance (Group) Company of China, Limited (retired on 3 June 2009), Tianjin Development Holdings Limited (retired on 26 May 2010), China Oilfield Services Limited (resigned on 28 May 2010) and Frasers Property (China) Limited (resigned on 14 January 2011). Mr. Kwong graduated from the University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was a partner of PriceWaterhouse Hong Kong from 1984 to 1998 and was an independent member of the Council of the Stock Exchange from 1992 to 1997, during which, he had acted as convener of both the Compliance Committee and the Listing Committee.

Mr. Hui Hung, Stephen, aged 53. Mr. Hui was appointed as an Independent non-executive Director of the Company in February 2006. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He was also an independent non-executive director of each of Shougang Century and Shougang Grand. Mr. Hui is the managing director of Federal Glory International Limited and Eastern Gain International Limited. Prior to joining the Company, he had been the manager of the China division of the Far East Regional Office of the Bank of Credit and Commerce International in Hong Kong and an independent non-executive director of each of The Quaypoint Corporation Limited and Haywood Investments Limited (now known as Mastermind Capital Limited), both are listed companies in Hong Kong. Mr. Hui graduated from Middlesex University in the United Kingdom in 1982 with a bachelor of arts degree in economics and geography and has been conferred a master of business administration degree by the Barrington University of the United States in 2001. He has extensive experience in banking, investment and financing investment in Mainland China.

BIOGRAPHICAL DETAILS OF DIRECTORS

Prof. Japhet Sebastian Law, aged 59. Prof. Law was appointed as an Independent non-executive Director of the Company in September 2008. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Prof. Law graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. He joined The Chinese University of Hong Kong in 1986 and is currently a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Prof. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Prof. Law is active in public services and serves as a member of the Provisional Regional Council of the Hong Kong SAR Government and varies other committees. He is active on the boards of profit, non-profit, and charitable organisations in Hong Kong and overseas. From July 2003 to February 2006, Prof. Law had also acted as an Independent Non-executive Director of the Company. He currently serves as an independent non-executive director of Tianjin Port Development Holdings Limited, Beijing Capital International Airport Co., Ltd and Binhai Investment Company Limited. He also served as an independent non-executive director of First China Financial Holdings Limited until 1 October 2008.

MAIN OPERATIONAL STRUCTURE



CHAIRMAN'S STATEMENT

The underlying impact of the global financial crisis still has a ripple effect on the economy worldwide for the year 2010, pace of recovery varies among industries. Driven by the blooming digital cinema industry, we achieve a strong result for the year and our revenue and profit hit our historical high for the year. Nevertheless, it is still a difficult time for the computer graphic ("CG") production industry and we cannot be immune from this financial turmoil. We will continue to demonstrate our professional capabilities and dedications to achieve better synergy, seize potential opportunities and meet any upcoming challenges.

Cinema digitalisation spreads like wildfire worldwide. Our digital content distribution and exhibitions division, being the largest digital cinema server supplier throughout Asia and one of the leading digital cinema server suppliers worldwide, receives an impressive volume of orders and ships a record number of approximately 4,300 units of equipment during the year, which is nearly double to the total number of units shipped over the past decade.

CHAIRMAN'S STATEMENT

In order to maintain the leading position in the digital content distribution and exhibitions business, we are not only strengthening our research and development, production facilities, service and marketing teams to provide superior digital delivery and display solutions to customers, but also improving the technology and production process as well as supply chain management so as to lower our cost and maximise our return.

In respect of our deployment of digital cinema network in Asia division, we recently enter into a non-exclusive virtual print fee ("VPF") agreement with the last major Hollywood studio, and now we have VPF agreements for all the six major Hollywood studios for digital cinema deployment in certain Asian countries or cities. This cooperation signals our on-going commitment to Asian exhibitors as a trusted partner in digitalisation. In addition to Hong Kong, we enter into agreements with two of the major exhibitors in Japan to participate in the VPF arrangement. These moves demonstrate our leading position in the market, and increasing international recognition and reputation, which furthering turn strengthened our competitive edges in the growing market.

Our CG creation and production division is not as smooth as other divisions this year, lack of new projects worldwide results to significant decrease in orders received by us. Fortunately, the situation is greatly improved recently, our current orders on hand already exceed those in the year 2010 and there are several projects under negotiation as well. We will continue to improve our financial control, production efficiency, and enhance our service quality and reliability to provide reliable, cost effective, high quality services to our customers.

In addition, our diversification in intellectual property ("IP") investment achieves a preliminary success. Productions of two 3D-animated films, two CG-animated and one traditional-animated television series are under our development plans and the preliminary comments from the industry are encouraging. In view of the growing 3D film and television market worldwide and the animation industry in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), we will continue to invest in our own IP assets and expand to related businesses.

CHAIRMAN'S STATEMENT

Our CG training division continues to maintain its industry reputation as one of the most comprehensive and effective CG professional training programme in the PRC. The films created by our students win over 20 awards in both local and international competitions, including Golden Dragon Award, Golden Panda Award and Gold Squirrel Award, with some films even purchased and broadcasted by the television channels. This significant achievement is mainly resulted from a broader and more effective recruitment strategy, professionalism of our training staff, and our high quality and practical training materials.

Furthermore, our achievement in the CG business is highly recognised by the PRC government. During the year, our production studio is announced jointly by the Ministry of Culture, Ministry of Finance, State Administration of Taxation as "National Animation Enterprise", our training center is also awarded as one of the "2010 Top Ten Vocational Training Institutions" organised by the Ministry of Education.

We always keep on exploring opportunities to achieve a higher yield and a higher return. The acquisition of 68% interest in 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) during the year provide us an opportunity to participate in the media entertainment and property development business in the PRC. We are currently working with several renowned architects, consultants and building management companies to prepare a detailed construction plan for the redevelopment of 珠影文化產業園 (Pearl River Film Cultural Park*) so as to take advantage of the prime location and the urban redevelopment policy in the PRC. We believe that the redeveloped cultural park will become an eye-catching scenic spot in Guangzhou and our growth engine in the future.

CHAIRMAN'S STATEMENT

The year 2010 is just the beginning of a harvesting period. Riding on the strong demand for products worldwide from our digital content distribution and exhibitions division, an extension of our deployment of digital cinema network in Asia division, a rebound of our CG creation and production division, steady growth of our CG training division and huge potential of our cultural park division, we are confident that we can maintain steady growth in our businesses and become one of the best digital media company worldwide.

The construction of our headquarters building at Shenzhen High-Tech Industrial Park has been completed and our subsidiaries in Shenzhen have been moved in during the forth quarter of the year 2010. Meanwhile, we further expand research, development and production centre of our multi-media digital contents and CG businesses, accordingly, production capacity and efficiency of all divisions are enhanced.

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

Li Shaofeng
Chairman

Hong Kong, 29 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

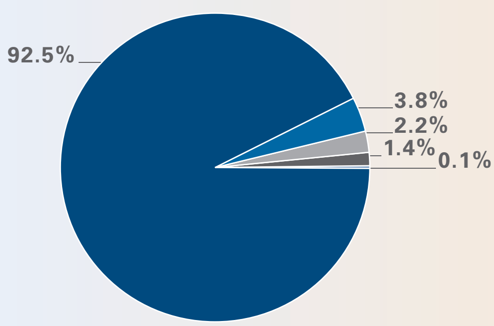
Revenue for the year ended 31 December 2010 is HK$584,019,000, when comparing with that of HK$383,117,000 for the year 2009, representing an increase of 52%. The increase is mainly attributable to an increase in revenue from the digital content distribution and exhibitions division by HK$237,600,000. As a result of the continuous roll-out of digital cinemas in the United States, the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), South Korea and other countries, more digital cinema equipment is sold and the related services are provided during the year. However, there is a decrease in revenue from the computer graphic ("CG") creation and production division by HK$44,015,000 for the year as the Group receives fewer orders for CG production.

Cost of sales for the year ended 31 December 2010 amounts to HK$335,592,000, when comparing with that of HK$280,180,000 for the year 2009, representing an increase of 20%. The increase is mainly due to the increase in the costs of goods sold.

MANAGEMENT DISCUSSION AND ANALYSIS

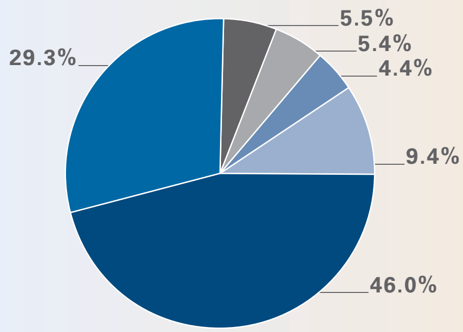
FINANCIAL OVERVIEW *(Continued)*

The Group records a gross profit of HK$248,427,000 for the year ended 31 December 2010, representing a gross profit margin of 43%. Comparing with the gross profit margin of 27% for the year 2009, the significant improvement is mainly due to an increase in the sales of digital cinema equipment with higher profit margins, and increases in technical service income and revenue from provision of assembly and integration services in relation to digital cinemas during the year.



REVENUE BY PRINCIPAL ACTIVITY FOR THE YEAR 2010

- 92.5% Digital content distribution and exhibitions
- 3.8% CG training courses
- 2.2% CG creation and production
- 1.4% Deployment of digital cinema network in Asia
- 0.1% Cultural park



REVENUE BY GEOGRAPHICAL LOCATION FOR THE YEAR 2010

- 46.0% The PRC
- 29.3% The United States
- 5.5% Hong Kong
- 5.4% Europe
- 4.4% Korea
- 9.4% Others

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW *(Continued)*

Other income for the year ended 31 December 2010 amounts to HK$9,711,000 (2009: HK$16,434,000), representing a decrease of 41%. The decrease is mainly due to the fact that the amount for the year 2009 included a one-off gain of HK$2,543,000 arising from the disposal of intangible asset to China Film Group Corporation ("CFGC") upon termination of the cooperation with CFGC for the deployment of digital cinema network in the PRC and the relevant imputed interest income of HK$3,127,000 derived from the deferred consideration.

Administrative expenses for the year ended 31 December 2010 amounts to HK$88,286,000 (2009: HK$64,214,000), representing an increase of 37%. The increase is mainly due to higher staff costs and office operating expenses as a result of the growth in the scale of operations of the Group.

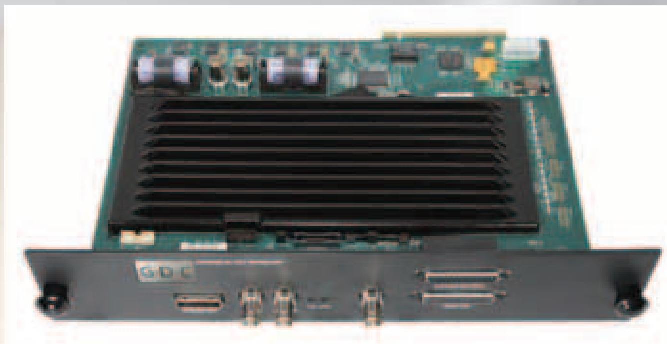
Other expenses and losses of HK$16,776,000 (2009: HK$8,208,000) mainly includes research and development costs of HK$9,257,000 (2009: HK$8,043,000) and an impairment of convertible loan receivable of HK$7,519,000 (2009: Nil).

Share-based payment expense of HK$24,471,000 (2009: Nil) represents recognition of equity-settled share-based payments for the share options granted by the Company and GDC Technology Limited, a subsidiary of the Company, during the year.

Overall, the Group records profit of HK$31,397,000 for the year ended 31 December 2010 attributable to owners of the Company, when comparing with that of HK$14,419,000 for the year 2009, representing an increase of 118%

Basic and diluted earnings per share for the year ended 31 December 2010 amounted to HK2.42 cents (2009: HK1.11 cents), representing increase of 118% when comparing with those for the year 2009.

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW AND OUTLOOK

Digital content distribution and exhibitions

For the year ended 31 December 2010, segment revenue and segment result from the digital content distribution and exhibitions division record respective increases of 79% and 257% to HK$539,971,000 and HK$164,463,000 when comparing with those for the year 2009. The significant growths are due to the success of 3D feature films and the availability of funding for digital cinema deployment, driving the brisk demand for installation of digital equipment in cinemas for digital contents. The Group continuously receives orders of digital cinema equipment and related services from customers in the United States, the PRC, other Asian countries and new markets, such as Australia, Europe and Japan.

The year 2010 marks an important milestone in the era of digital cinema, as a brand new generation of projector, DLP Cinema® Series 2 projector, is launched. In response to the demand for enhancement of projector technology, the Group is the first to offer its "S2 Upgrade" kits to upgrade its SA2100 digital cinema server to connect to the DLP CinemaR Series 2 projector. The Group also develops its fifth generation SX2000 and SX2001 digital cinema servers. SX2000 digital cinema server incorporates an integrated media block ("IMB") that integrates with the DLP Cinema® Series 2 projector, the Group is one of the major suppliers in the world that produces IMB for the DLP Cinema® Series 2 projector. During the year, the Group also launches a new feature – "3D Live" option in its digital cinema server for the 3D broadcast without an addition decoder box. One of the Group's customers in South Korea adopts the above features and successfully broadcasts the live 3D FIFA World Cup matches at its 52 cinemas.

The Group continues to strength its research and development team in order to identify and address customer needs and respond to demands in the digital cinema industry. At present, the Group is one of the three digital cinema server suppliers which has obtained FIPS 140 certification required by the standard Digital Cinema Initiative ("DCI") specifications. Besides, the Group's production facilities in Hong Kong and Shenzhen are semi-automated and achieved ISO 9001: 2008 Quality Management System certification during the year, aiming to continuously provide quality products and services to its customers.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

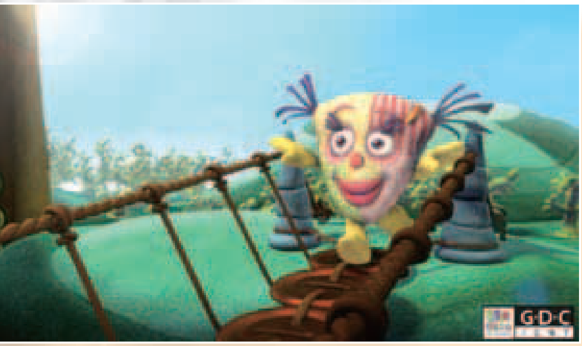
Digital content distribution and exhibitions *(Continued)*

In order to deliver better services and customer support to the Group's exhibitors as well as to increase its prospective customer base in the United States, the Group establishes a new office in the east coast of the United States and conducts digital cinema courses providing specific proficiencies for theatre managers, projectionists, service and installation partners as well as field service engineers. In the PRC, the Group's products have been deployed in more than 25 provinces, the Group employs more staff to strengthen its round-the-clock customer service centre and establishes six regional service teams to provide faster and better services to customers. The Group will also allocate more resources to new markets, such as Australia, Europe, Japan and Latin America.

With the new generation of servers and other products for theatre automation and management, network operation centre software, cinema digital signage and integrated projection system, the Group is capable of offering exhibitors an all-round digital cinema solution for digital cinema, on-screen advertisement and out-of-home advertisement businesses. In addition, the Group begins to provide digital post-production services to film distributors and filmmakers related to the preparation of Digital Cinema Package and fulfillment services.

Deployment of digital cinema network in Asia

The Group has entered into non-exclusive virtual print fee ("VPF") agreements with all the six major Hollywood studio for digital cinema deployment in certain Asian countries or cities. These studios are committed to supply Asian exhibitors with feature film content digitally, as well as to provide financial assistance for the hardware cost of DCI compliant digital cinema equipment deployed. The Group has signed up with two major exhibitors in Hong Kong to participate in the VPF arrangements and just signs similar agreements with two of the major exhibitors in Japan to participate in the VPF arrangements. The Group endeavors to enter into more similar agreements in Japan and other Asian jurisdictions.



CG creation and production

Since the second half of the year 2009, the international animation production industry has been depressed with less investment in new projects, resulting in a decrease in revenue from the CG creation and production division for the year ended 31 December 2010 by 77% when comparing with that for the year 2009, and incurs a loss of HK$21,193,000 for the year. However, the Group currently has three CG production projects from Australia and Europe in progress, with several other projects in their testing stages.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production *(Continued)*

In view of the growing 3D film market and animation industry in the PRC, the Group promotes new 3D animation programmes and invests in its own traditional and CG animation intellectual property ("IP") assets. During the year, the Group begins production of two 3D-animated films, two CG-animated and one traditional-animated television series, two of which receives subsidies from the local municipal government in the PRC. The two 3D-animated films are currently in their post-production stages while the traditional-animated television series are completed. They are planned to be released during the year 2011.

Apart from undertaking international production projects and investing in IP assets, the Group works with renowned directors and producers and large international animation content production and distribution companies for co-production projects, and is currently negotiating one with a television network in Europe and another with a famous creative company in North America. The Group also discusses with a company in the PRC for potential co-production of 4D CG projects. At the same time, the Group is actively looking for new customers, and is now discussing with several world-leading entertainment brands for animated television series and films. Many customers of the Group express interest to develop long-term and multi-project relationships with the Group, including 3D films and CG Television series, in view of the Group's demonstrated track record of providing reliable, cost-effective, high-quality CG production services to international markets.

CG training

CG training division continues to pursue, as a core component of its strategy, towards professionalism and strengthening of training materials. It records nearly 100% employment of the graduates from 8 training courses. For the year ended 31 December 2010, this division records a steady growth in revenue of 16% when comparing with that for the year 2009 while its segment result decreases slightly by 4% as loss on disposal of property, plant and equipment of HK$1,091,000 incurred during the year due to office relocation.

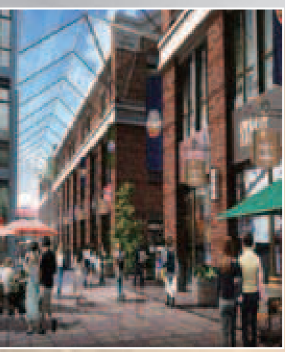
After upgrading the existing training courses with the latest technology of CG production, online games and other games in response to market demands, the Group organises new professional training programmes in other areas, including after effects, virtual reality and case studies for animation. Besides, the Group continues to co-operate with prominent high schools in the PRC to organise "Skills and Qualifications" training programme for their students in achieving "One Course, Multiple Certifications", and to hone their practical skills to prepare for immediately employment after graduation.

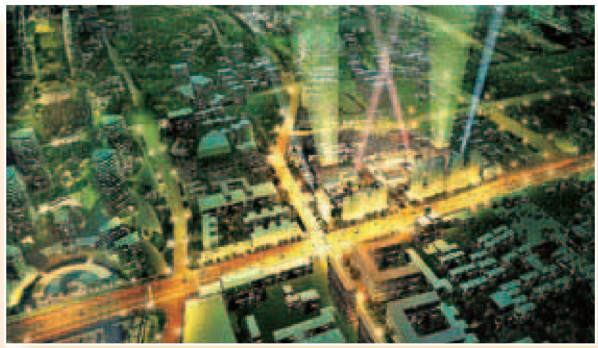
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG training *(Continued)*

In light of the success of the Group's training centres in Shanghai, Shenzhen, Wuxi, Chongqing and Guangzhou, the Group plans to set up a new training centre in northern China to provide a more comprehensive network coverage in the PRC, with a view to stimulating and promoting its training business to those areas with developed animation industry and further expanding its training network.





Cultural park

During the year, the Group acquires 68% of the registered capital of 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) ("Guangdong Shishang"), a limited liability company established in the PRC. Guangdong Shishang has entered into a framework agreement with 珠江電影製片有限公司 (Pearl River Film Production Company Limited*) to jointly redevelop 珠影文化產業園 (Pearl River Film Cultural Park*). As announced by the Company on 11 January 2011, the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park with an aggregate consideration of approximately HK$92.0 million and the construction has commenced.

The Group considers that this division provides an opportunity for the Group to participate in the rapid media entertainment and property development business in the PRC. Given the rapid economic growth and the rapid development of its retail and recreation market in the PRC, the Group is of the view that the redevelopment of the Pearl River Film Cultural Park provides a good opportunity for the Group to tap into this fast developing sector, as the market is expected to continue its strong growth in line with the growth in the PRC economy.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group has bank balances and cash of HK$235.7 million (2009: HK$166.6 million), pledged bank deposits of HK$46.2 million (2009: HK$2.0 million) and structured deposits of HK$41.2 million (2009: Nil), which are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase is the result of new bank loans raised of HK$194.8 million, net repayment from convertible loan receivable of HK$113.4 million and net cash from operating activities of HK$68.5 million, netted off with purchase of property, plant and equipment of HK$158.0 million and net cash outflow arising from the acquisition of Guangdong Shishang of HK$63.1 million.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 31 December 2010, the Group's borrowings amount to HK$205.3 million, of which HK$45.3 million are repayable within twelve months from 31 December 2010 and HK$160.0 million are repayable after twelve months from 31 December 2010. The borrowings are mainly denominated in Renminbi and bear interest at market rates.

The Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 31 December 2010 is 52% (2009: 3%). As at 31 December 2010, the Group has a current ratio of 1.8 (2009: 2.8) based on current assets of HK$554.2 million and current liabilities of HK$302.5 million. The significant increase in the gearing ratio is mainly attributable to new bank loans raised to finance the construction of the Group's headquarters building in Shenzhen and as general working capital for the Group. Notwithstanding such an increase in the gearing ratio, the Group continues to maintain a healthy capital ratio as it has an excess of current assets over current liabilities.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounts to HK$393.8 million as at 31 December 2010 (2009: HK$329.5 million). The increase is mainly attributable to profit for the year ended 31 December 2010 attributable to owners of the Company of HK$31.4 million, recognition of equity-settled share-based payments in share options reserve of HK$18.6 million for the share options granted by the Company and exchange differences arising on translation of foreign operations of HK$10.1 million.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the acquisition of Guangdong Shishang and the dilution of interest in GDC Technology Limited, an indirect non-wholly owned subsidiary of the Company, upon exercise of its share options, further details of which are disclosed in notes 38 and 2 to the consolidated financial statements, respectively, the Group does not have any material acquisitions, disposals and significant investment during the year ended 31 December 2010.

CHARGE ON ASSETS

As at 31 December 2010, the Group has the following charges on assets:

(i) The Group's building, plant and machinery and prepaid lease payments with an aggregate carrying a value of HK$266.6 million are pledged to a bank to secure for a bank borrowing with an outstanding amount of HK$162.3 million and utilised borrowing facilities of HK$41.2 million; and

(ii) The Group pledges deposits amounting to HK$46.2 million to a bank to secure short-term bank loans of HK$43.0 million. The pledged bank deposit will be released upon the settlement of the bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue mainly in United States dollars and Renminbi, and incurs costs mainly in United States dollars, Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure, and thus do not implement any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2010, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 39 to the consolidated financial statements about litigation proceeding, the Group has no significant contingent liabilities as at 31 December 2010.

EMPLOYEES

As at 31 December 2010, the Group employs 627 (2009: 652) full time employees (excluding those employees under the payroll of an associate of the Group). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

During the year ended 31 December 2010, the Company and its subsidiaries have neither paid nor committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of all shareholders and to enhance accountability and transparency.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") throughout the year ended 31 December 2010.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with the Directors, the Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2010.

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.

BOARD OF DIRECTORS

Composition

As at 31 December 2010, the board of Directors of the Company (the "Board ") comprises seven members including three Executive Directors, Mr. Li Shaofeng, Mr. Chen Zheng and Mr. Jin Guo Ping; one Non-executive Director, Mr. Leung Shun Sang, Tony and three Independent non-executive Directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Li Shaofeng. The Board has 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 Board has a balance of skills and experience appropriate for the requirements of the businesses of the Group.

Mr. Cao Zhong resigned as the Executive Director of the Company on 10 May 2010.

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

- making an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance.

To the best of the knowledge of the Company, the Directors have no financial, business, family or other material/relevant relationships with each other.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Role and function

The Board is responsible for overall strategy formulation and performance monitoring of the Group. It delegates day-to-day operations of the Group to the Executive Committee within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board meets at least four times a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the bye-laws of the Company (the "Bye-laws").

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

All Directors have access to the company secretary who is responsible for ensuring that the Board meeting's procedures are complied with and all applicable rules and regulations are followed.

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

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

The Board held six Board meetings during the year ended 31 December 2010. The Directors have made active contribution to the affairs of the Group and the six Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the quarterly results, interim results and annual results of the Group. The attendance records of the Board meetings held in the year 2010 are set out below:

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board meetings *(Continued)*

	Attended/Eligible to attend
Executive Directors	
Mr. Li Shaofeng *(Chairman) (appointed on 10 May 2010)*	3/3
Mr. Chen Zheng	6/6
Mr. Jin Guo Ping	6/6
Mr. Cao Zhong *(resigned on 10 May 2010)*	1/3
Non-executive Director	
Mr. Leung Shun Sang, Tony	6/6
Independent non-executive Directors	
Mr. Kwong Che Keung, Gordon	6/6
Mr. Hui Hung, Stephen	6/6
Prof. Japhet Sebastian Law	5/6

Access to information

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

The Board is supplied with relevant information by the management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group at least three days before each Board meeting. Where any Director requires more information than is supplied by the management, they have the right of separate and independent access to the Group's management to make further enquiries if necessary.

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

According to the Bye-laws, any Director appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

The term of the appointment of Non-executive Director and Independence non-executive Directors is for a period of three years respectively, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Independent non-executive Directors

Pursuant to Rules 5.05(1) and 5.05(2) of the GEM Listing Rules, the Company has appointed three Independent non-executive Directors. One of the Independent non-executive Directors, namely, Mr. Kwong Che Keung, Gordon has appropriate professional qualifications or accounting or related financial management expertise.

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 the Chairman and the Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Li Shaofeng assumes the role of the Chairman and Mr. Chen Zheng serves as the Managing Director of the Company. The Chairman provides leadership for the Board and overall strategy formulation for the Group. 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.

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

BOARD COMMITTEES

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

Executive Committee

An Executive Committee of the Board was established in September 2007 and comprises all the Executive Directors of the Company.

During the year ended 31 December 2010, the members of the Executive Committee were as follows:

- Mr. Li Shaofeng *(Chairman) (appointed on 10 May 2010)*
- Mr. Chen Zheng
- Mr. Jin Guo Ping
- Mr. Cao Zhong *(resigned on 10 May 2010)*

Mr. Cao Zhong resigned as an Executive Director on 10 May 2010 and cease to be the Chairman of the Executive Committee and Nomination Committee and the Vice Chairman of the Remuneration Committee with effect from the same date.

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. For the year ended 31 December 2010, six meetings of the Executive Committee were held.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee

An Audit Committee of the Board was established in July 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are available on request and are published on the Company's website.

The Audit Committee consists of three Independent non-executive Directors, namely, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Kwong Che Keung, Gordon. None of the members of the Audit Committee are former partners of the auditor of the Company.

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

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

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain external legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee held four meetings in the year 2010 with the management and the Company's internal audit manager, two of which with the external auditor, amongst other things, reviewing:

- the Group's significant internal control;
- the final results of the Group for the financial year ended 31 December 2009;
- the quarterly results of the Group for the three months ended 31 March 2010;
- the interim results of the Group for the six months ended 30 June 2010; and
- the quarterly results of the Group for the nine months ended 30 September 2010.

During the year 2010, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

The attendance records of the Audit Committee meetings held in the year 2010 are set out below:

	Attended/Eligible to attend
Mr. Kwong Che Keung, Gordon *(Chairman)*	4/4
Mr. Hui Hung, Stephen	4/4
Prof. Japhet Sebastian Law	4/4

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee

A Nomination Committee of the Board was established in August 2003 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 published on the Company's website.

The Nomination Committee consists of five Directors, namely, Mr. Li Shaofeng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Li Shaofeng. The Independent non-executive Directors constitute the majority of the committee.

The principal duties of the Nomination Committee include:

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

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

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

For the year ended 31 December 2010, two meetings of the Nomination Committee was held for, amongst other things:

- making recommendations to the Board on relevant matters relating to the appointment of the Executive Director of the Company; and
- reviewing the structure of the Board.

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The attendance records of the Nomination Committee meetings held in the year 2010 are set out as follows:

	Attended/Eligible to attend
Mr. Li Shaofeng *(Chairman) (appointed on 10 May 2010)*	1/1
Mr. Leung Shun Sang, Tony *(Vice Chairman)*	2/2
Mr. Kwong Che Keung, Gordon	2/2
Mr. Hui Hung, Stephen	2/2
Prof. Japhet Sebastian Law	1/2
Mr. Cao Zhong *(resigned on 10 May 2010)*	1/1

Remuneration Committee

A Remuneration Committee of the Board was established in July 2003 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on request and are published on the Company's website.

The Remuneration Committee consists of five Directors, namely, Mr. Leung Shun Sang, Tony, Mr. Li Shaofeng, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law. It is chaired by Mr. Leung Shun Sang, Tony. The Independent non-executive Directors constitute the majority of the committee.

The principal duties of the Remuneration Committee include:

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

- reviewing and approving performance-based remuneration;

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The remuneration policies applicable to the Directors and management of the Group are performance-based and in line with market practice. The Company reviews the remuneration package annually taking into consideration market practice, the competitive market position and individual performances.

For the year ended 31 December 2010, two meeting of the Remuneration Committee was held for, amongst other things:

- reviewing the remuneration and terms of service contract of the appointed Executive Director;
- reviewing the remuneration and terms of service contracts of the Executive Directors;
- determining the bonuses of the Executive Directors of the Company for the year 2010; and
- making recommendations to the Board on the directors' fees of the Non-executive Director and the Independent non-executive Directors for the year 2011.

The attendance records of the Remuneration Committee meetings held in the year 2010 are set out as below:

	Attended/Eligible to attend
Mr. Leung Shun Sang, Tony *(Chairman)*	2/2
Mr. Li Shaofeng *(Vice Chairman) (appointed on 10 May 2010)*	1/1
Mr. Kwong Che Keung, Gordon	2/2
Mr. Hui Hung, Stephen	2/2
Prof. Japhet Sebastian Law	1/2
Mr. Cao Zhong *(resigned on 10 May 2010)*	1/1

INTERNAL CONTROL

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

The Board is responsible for monitoring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organisation structure, a reporting system has been developed under which the division head of each principal business unit will reports to the Executive Committee directly.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

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

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews the monthly management reports on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

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

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

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

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever-changing business environment. During the year ended 31 December 2010, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems. The division head of each principle business unit has submitted representation letters to the Managing Director, in which they made representations as to compliance by themselves and their subordinates of key internal control systems for the year 2010. In turn, the Managing Director has submitted the representation letter for the Group to the Audit Committee. The requirement for making representation letters by the management can strengthen individual responsibility for corporate governance and controls.

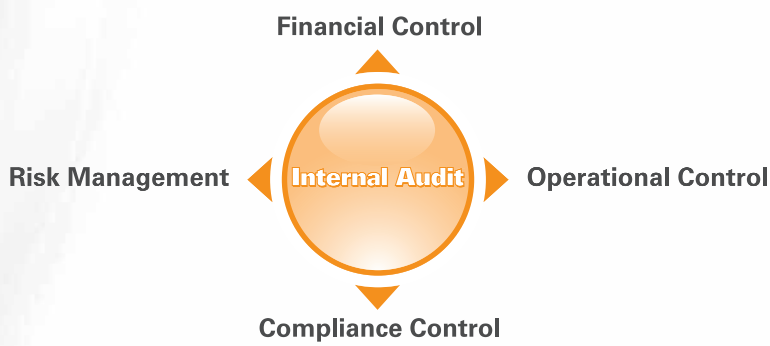
To comply with the code provision C.2.2 of the Code on Corporate Governance Practices (Appendix 15 of the GEM Listing Rules), the Board had also included a review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget in its annual review for the year 2010.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

Internal control system

Internal audit functions



CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

During the year ended 31 December 2010, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Statutory audit services	720
Non-statutory audit services:	
Review on interim financial report	240
	960

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 quarterly, interim and annual financial statements, announcements and other financial disclosures required under the GEM Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 44 to 45 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

The general meetings of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. The Company's external auditor, where appropriate, is available to answer shareholders' queries at the meetings.

SHAREHOLDERS' RIGHTS

The detailed procedures for demanding and conducting a poll were explained by the chairman at general meetings. The results of the poll were published on the websites of the Stock Exchange and the Company, respectively.

All notices of general meetings despatched by the Company to its shareholders for meetings were sent in the case of annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings, and all resolutions put to the vote of a general meeting were by way of a poll.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and associate are set out in notes 45 and 21 to the consolidated financial statements, respectively.

RESULTS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 46 to 114 of this annual report.

The board of Directors of the Company (the "Board") does not recommend the payment of any dividend for the year ended 31 December 2010 (2009: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published consolidated results and assets and liabilities of the Group for the last five financial years is set out on page 116 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 18 to the consolidated financial statements.

Particulars of the investment properties of the Group as at the end of the reporting period are set out on page 115 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 17 to the consolidated financial statements.

Particulars of the building of the Group as at the end of the reporting period are set out on page 115 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 35 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 49 to 50 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were as follows:

Mr. Li Shaofeng *(appointed on 10 May 2010)*
Mr. Chen Zheng
Mr. Jin Guo Ping
Mr. Cao Zhong *(resigned on 10 May 2010)*
Mr. Leung Shun Sang, Tony#
Mr. Kwong Che Keung, Gordon*
Mr. Hui Hung, Stephen*
Prof. Japhet Sebastian Law*

Non-executive Director
* *Independent non-executive Directors*

In accordance with clause 87(2) of the Company's bye-laws, Mr. Chen Zheng, Mr. Jin Guo Ping and Mr. Kwong Che Keung, Gordon will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the Independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers that all of the Independent non-executive Directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out in the "Biographical Details of Directors" section on pages 4 to 6.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Shaofeng has entered into a service contract with a wholly-owned subsidiary of the Company from 10 May 2010 to 31 December 2012 unless terminated by at least three months notice in writing served by either party prior to the expiry of the terms; and each of Mr. Chen Zheng and Mr. Jin Guo Ping has entered into a service contract with a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011, unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

Each of Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law has entered into an engagement letter with the Company for a term of three years commencing from 1 January 2011 unless terminated by at least one month's notice in writing served by either party prior to the expiry of the term.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee, and approved by the Board having regard to their experience, duties, performance and the prevailing market conditions. No Directors are involved in deciding their own remuneration.

The Group offers competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, the Executive Directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

The Group has adopted share option schemes as an incentive to the Directors and eligible employees, details of the schemes are set out in the "Share Option Schemes" section and note 37 to the consolidated financial statements.

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(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: Interests in shares	Interests under equity derivatives*	Total interests	Approximate percentage of issued share capital of the Company
Mr. Li Shaofeng	Beneficial owner	–	12,950,000	12,950,000	0.99%
Mr. Chen Zheng	Beneficial owner	8,728,200	11,360,000	20,088,200	1.55%
Mr. Jin Guo Ping	Beneficial owner	–	2,590,000	2,590,000	0.19%
Mr. Leung Shun Sang, Tony	Beneficial owner	20,008,200	11,370,000	31,378,200	2.42%
Mr. Kwong Che Keung, Gordon	Beneficial owner	800,820	1,780,000	2,580,820	0.19%
Mr. Hui Hung, Stephen	Beneficial owner	800,820	1,780,000	2,580,820	0.19%
Prof. Japhet Sebastian Law	Beneficial owner	–	1,290,000	1,290,000	0.09%

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

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 Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in Shougang Grand: Interests in shares	Interests under equity derivatives*	Total interests	Approximate percentage of issued share capital of Shougang Grand
Mr. Li Shaofeng	Beneficial owner	–	11,000,000	11,000,000	0.95%
Mr. Chen Zheng	Beneficial owner	–	18,368,000	18,368,000	1.59%
Mr. Leung Shun Sang, Tony	Beneficial owner	8,278,000	19,368,679	27,646,679	2.39%

* *The relevant interests are unlisted physically settled options granted pursuant to Shougang Grand's share option scheme adopted on 7 June 2002 (the "Shougang Grand Scheme"). Upon exercise of the share options in accordance with the Shougang Grand Scheme, ordinary shares of HK$0.01 each in the share capital of Shougang Grand are issuable. The share options are personal to the respective Directors.*

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Technology: Interests in shares	Interests under equity derivatives*	Total interests	Approximate percentage of issued share capital of GDC Technology
Mr. Li Shaofeng	Beneficial owner	–	2,300,000	2,300,000	0.97%
Mr. Chen Zheng	Beneficial owner	8,533,334	3,350,000	11,883,334	5.02%
Mr. Jin Guo Png	Beneficial owner	–	400,000	400,000	0.16%
Mr. Leung Shun Sang, Tony	Beneficial owner	3,780,000	1,000,000	4,780,000	2.02%
Mr. Kwong Che Keung, Gordon	Beneficial owner	1,706,667	365,000	2,071,667	0.87%
Mr. Hui Hung, Stephen	Beneficial owner	–	365,000	365,000	0.15%
Prof. Japhet Sebastian Law	Beneficial owner	–	200,000	200,000	0.08%

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

REPORT OF THE DIRECTORS

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

Save as disclosed above, as at 31 December 2010, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 11.04 of the GEM Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors 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
Mr. Li Shaofeng	Shougang Grand *(Note1)*	Cultural recreation content provision *(Note2)*	Chairman
Mr. Chen Zheng	Shougang Grand *(Note1)*	Cultural recreation content provision *(Note2)*	Managing director of operations
Mr. Leung Shun Sang, Tony	Shougang Grand *(Note1)*	Cultural recreation content provision *(Note2)*	Director

Notes:

1. Shougang Grand indirectly held approximately 49.99% interests in the Company as at 31 December 2010.

2. Such businesses may be carried out through the subsidiaries or associates of Shougang Grand or by way of other forms of investments.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES *(Continued)*

The Board is independent from the board of Shougang Grand. Coupled with the expertise and professional experience of 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 Shougang Grand.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Approximate percentage of total issued share capital of the Company
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	647,624,023 *(Note)*	49.99%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	647,624,023 *(Note)*	49.99%
Shougang Grand	Interests of controlled corporations	647,624,023 *(Note)*	49.99%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	647,624,023 *(Note)*	49.99%
Keywise Capital Management (HK) Limited	Investment manager	74,988,000	5.79%

Note: Upper Nice is an indirect wholly-owned subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporations are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 31 December 2010, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 18 July 2003, a share option scheme of the Company (the "Scheme") which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to eligible participants as rewards for their contributions to the Group. The Scheme will remain in force for a period of 10 years commencing on 4 August 2003, being the date on which dealings in the shares of the Company first commenced on the GEM, to 3 August 2013.

Under the Scheme, the Directors may, at their discretion, offer any full-time employees, Directors (including Independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group and any advisors (professionals or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group whom the Directors may consider, in their sole discretion, have contributed or contribute to the Group, share options to subscribe for shares of the Company.

As at the date of this annual report, the total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 83,820,000 which represents approximately 6.47% of the issued share capital of the Company. As at the date of this annual report, the maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 155,094,554, representing approximately 11.97% of the issued share capital of the Company. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of the shareholders of the Company in general meetings. Share options granted to a Director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates, are subject to approval in advance by the Independent non-executive Directors. In addition, any share options granted to a substantial shareholder of the Company or an Independent non-executive Director, or to any of their respective associates, in excess of in aggregate 0.1% of the shares in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the shares of the Company at the date of each offer), within any 12-month period, are subject to approval of the shareholders of the Company in advance in general meetings.

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

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

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

SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

Details of movements in the share options under the Scheme during the year ended 31 December 2010 are as follows:

	Number of shares options to subscribe for shares of the Company									
Category or name of grantees	Balance as at 01.01.2010	Granted during the year	Transferred to other category during the year	Transferred from other category during the year	Exercised during the year	Lapsed during the year	Balance as at 31.12.2010	Date of grant	Exercise period	Exercise price per share
Directors										
Mr. Li Shaofeng	–	12,950,000	–	–	–	–	12,950,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
Mr. Chen Zheng	4,900,000	–	–	–	(10,000)	–	4,890,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	–	6,470,000	–	–	–	–	6,470,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	4,900,000	6,470,000	–	–	(10,000)	–	11,360,000			
Mr. Jin Guo Ping	–	2,590,000	–	–	–	–	2,590,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
Mr. Leung Shun Sang, Tony	4,900,000	–	–	–	–	–	4,900,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	–	6,470,000	–	–	–	–	6,470,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	4,900,000	6,470,000	–	–	–	–	11,370,000			
Mr. Kwong Che Keung, Gordon	490,000	–	–	–	–	–	490,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	–	1,290,000	–	–	–	–	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	490,000	1,290,000	–	–	–	–	1,780,000			
Mr. Hui Hung, Stephen	490,000	–	–	–	–	–	490,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	–	1,290,000	–	–	–	–	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	490,000	1,290,000	–	–	–	–	1,780,000			
Prof. Japhet Sebastian Law	–	1,290,000	–	–	–	–	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
Mr. Cao Zhong	4,900,000	–	(4,900,000)[1]	–	–	–	–	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	15,680,000	32,350,000	(4,900,000)	–	(10,000)	–	43,120,000			
Employees of the Group	2,300,000	–	(100,000)[2]	–	–	(2,200,000)[3]	–	22.03.2007	22.03.2007-21.03.2010	HK$1.07
	2,262,000	–	(200,000)[2]	–	–	(2,062,000)[4]	–	04.04.2007	04.04.2007-03.04.2010	HK$1.52
	9,900,000	–	–	–	–	–	9,900,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	–	25,900,000	–	–	–	–	25,900,000	14.12.2010	14.12.2010-03.08.2013	HK$0.87
	14,462,000	25,900,000	(300,000)	–	–	(4,262,000)	35,800,000			
Other participants	–	–	–	100,000[2]	–	(100,000)[2]	–	22.03.2007	22.03.2007-21.03.2010	HK$1.07
	1,781,000	–	–	200,000[2]	–	(1,981,000)[5]	–	04.04.2007	04.04.2007-03.04.2010	HK$1.52
	–	–	–	4,900,000[1]	–	–	4,900,000	30.10.2007	30.10.2007-29.10.2012	HK$2.75
	1,781,000	–	–	5,200,000	–	(2,081,000)	4,900,000			
	31,923,000	58,250,000	(5,200,000)	5,200,000	(10,000)	(6,343,000)	83,820,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

Notes:

1. Such share options were re-classified from the category of "Directors" to "Other participants" as Mr. Cao Zhong ceased to be a director of the Company and became a consultant of the Group during the year ended 31 December 2010.

2. Such share options were re-classified to the category of "Other participants" upon those grantees ceased to be employees of the Group during the year ended 31 December 2010. According to the Scheme, such share options lapsed on the expiry of the three months period following the date of cessation of those grantees as employees of the Group.

3. Such share options lapsed on 22 March 2010 according to the Scheme.

4. Such share options lapsed on 4 April 2010 according to the Scheme.

5. According to the Scheme, 820,000 share options lapsed upon the expiry of the three months period following the date of cessation of those grantees as other participants of the Group and 1,161,000 share options lapsed on 4 April 2010.

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

Each of the Company and Shougang Grand has adopted the share option scheme of GDC Technology ("GDC Technology Share Option Scheme") by a shareholders' resolution passed at their respective special general meeting held on 19 September 2006.

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

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Technology *(Continued)*

Under the GDC Technology Share Option Scheme, the directors of GDC Technology 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 Technology Group and any advisors, consultants, suppliers, customers and agents to the GDC Technology Group and such other persons whom the directors of GDC Technology consider, in their sole discretion, will contribute or have contributed to the GDC Technology Group, share options to subscribe for shares of GDC Technology.

As at the date of this annual report, the total number of shares of GDC Technology which may be issued upon exercise of all outstanding share options granted under the GDC Technology Share Option Scheme is 15,630,000 which represents approximately 6.61% of the issued share capital of GDC Technology. As at the date of this annual report, the maximum number of shares of GDC Technology available for issue upon exercise of all share options which may be granted under the GDC Technology Scheme is 27,099,509, representing approximately 11.47% of the issued share capital of GDC Technology. The total number of shares of GDC Technology issued and to be issued upon the exercise of share options granted under the GDC Technology 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 Technology as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of the shareholders of the Company in general meetings. Share options granted to the Director, chief executive, management shareholder or the substantial shareholder of the Company or to their respective associates, are subject to approval in advance by the Independent non-executive directors. In addition, any share options granted to a substantial shareholder of the Company or an Independent non-executive Director or to their associates, in excess of in aggregate 0.1% of the shares of GDC Technology in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of the Company in advance in general meetings.

The period during which a share option may be exercised will be determined by the directors of GDC Technology at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Technology Share Option 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 Technology are empowered to impose at their discretion any such minimum period at the time of the grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC Technology at their absolute discretion and shall not be less than the nominal value of a share of GDC Technology and shall be subject to the approval of the Board 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 Technology Share Option Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Technology *(Continued)*

Details of movements in the share options under the GDC Technology Share Option Scheme during the year ended 31 December 2010 are as follows:

	Number of shares options to subscribe for shares of GDC Technology								
Category or name of grantees	Balance as at 01.01.2010	Granted during the year	Transferred to other category during the year	Transferred from other category during the year	Exercise during the year	Balance as at 31.12.2010	Date of grant	Exercise period	Exercise price pre share
Directors									
Mr. Li Shaofeng	-	2,300,000	-	-	-	2,300,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
Mr. Chen Zheng	1,650,000	-	-	-	-	1,650,000	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	-	1,700,000	-	-	-	1,700,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
	1,650,000	1,700,000	-	-	-	3,350,000			
Mr. Jin Guo Ping	-	400,000	-	-	-	400,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
Mr. Leung Shun Sang, Tony	1,650,000	-	-	-	(1,650,000)	-	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	-	1,000,000	-	-	-	1,000,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
	1,650,000	1,000,000	-	-	(1,650,000)	1,000,000			
Mr. Kwong Che Keung, Gordon	165,000	-	-	-	-	165,000	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	-	200,000	-	-	-	200,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
	165,000	200,000	-	-	-	365,000			
Mr. Hui Hung, Stephen	165,000	-	-	-	-	165,000	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	-	200,000	-	-	-	200,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
	165,000	200,000	-	-	-	365,000			
Prof. Law Japhet Sebastian	-	200,000	-	-	-	200,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
Mr. Cao Zhong	1,650,000	-	(1,650,000)[1]	-	-	-	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	5,280,000	6,000,000	(1,650,000)	-	(1,650,000)	7,980,000			
Employees of the Group	1,650,000	-	-	-	-	1,650,000	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	-	6,000,000	-	-	-	6,000,000	14.12.2010	14.12.2010–13.12.2015	HK$2.00
	1,650,000	6,000,000	-	-	-	7,650,000			
Other participant	-	-	-	1,650,000[1]	(1,650,000)	-	02.11.2007	02.11.2007–01.11.2012	HK$2.00
	6,930,000	12,000,000	(1,650,000)	1,650,000	(3,300,000)	15,630,000			

Note:

1. Such share options were re-classified from the category of "Directors" to "Other participant" as Mr. Cao Zhong ceased to be a director of the Company and became a consultant of the Group during the year ended 31 December 2010.

REPORT OF THE DIRECTORS

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company's reserves available for distribution amounted to approximately HK$332,878,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 31% of the revenue for the year and the largest customer included therein amounted to approximately 11%. Purchases from the Group's five largest suppliers accounted for approximately 51% of the cost of sales for the year and the largest supplier included therein amounted to approximately 32%. Save as disclosed above, none of the Directors or any of their associates or any shareholders (which, to the best of the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 31 of this annual report.

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 43 to the consolidated financial statements.

AUDITOR

The accounts have been audited by Messrs. Deloitte Touche Tohmatsu who retire, and, being eligible, offer themselves for re-appointment.

By Order of the Board
Li Shaofeng
Chairman

Hong Kong, 29 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 114, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	7	**584,019**	383,117
Cost of sales		**(335,592)**	(280,180)
Gross profit		**248,427**	102,937
Other income and gains	10	**9,711**	16,434
Distribution costs and selling expenses		**(21,066)**	(7,913)
Administrative expenses		**(88,286)**	(64,214)
Finance costs	11	**(2,306)**	(809)
Other expenses and losses	12	**(16,776)**	(8,208)
Share of loss of an associate		**(106)**	(287)
Share-based payment expense		**(24,471)**	–
Profit before tax		**105,127**	37,940
Income tax expense	13	**(15,401)**	(6,163)
Profit for the year	14	**89,726**	31,777
Other comprehensive income (expenses):			
Exchange differences arising on translation of foreign operations		**11,733**	(54)
Total comprehensive income for the year		**101,459**	31,723
Profit for the year attributable to:			
Owners of the Company		**31,397**	14,419
Non-controlling interests		**58,329**	17,358
		89,726	31,777
Total comprehensive income for the year attributable to:			
Owners of the Company		**41,491**	14,385
Non-controlling interests		**59,968**	17,338
		101,459	31,723
		HK cents	*HK cents*
Earnings per share	16		
Basic		**2.42**	1.11
Diluted		**2.42**	1.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**312,578**	115,389
Investment properties	*18*	**95,395**	–
Prepaid lease payments	*19*	**5,875**	5,799
Available-for-sale investment	*20*	**588**	568
Interest in an associate	*21*	**22,196**	21,569
Other receivables	*22*	**42,024**	20,657
Pledged bank deposit	*30*	**–**	1,956
		478,656	165,938
Current assets			
Inventories	*23*	**58,870**	34,947
Productions work in progress	*24*	**13,241**	–
Amounts due from customers for contract work	*25*	**–**	5,795
Trade receivables	*26*	**101,490**	41,338
Other receivables, prepayments and deposits	*22*	**54,828**	27,070
Prepaid lease payments	*19*	**129**	125
Held-for-trading investments	*27*	**2,566**	2,398
Convertible loan receivable	*28*	**–**	119,255
Structured deposits	*29*	**41,169**	–
Pledged bank deposits	*30*	**46,243**	–
Bank balances and cash	*30*	**235,653**	166,604
		554,189	397,532
Current liabilities			
Advances from customers		**49,042**	35,748
Amounts due to customers for contract work	*25*	**165**	366
Trade payables	*31*	**45,563**	31,781
Other payables and accruals	*32*	**122,775**	47,160
Amounts due to fellow subsidiaries	*33*	**–**	1,194
Amount due to an associate	*33*	**21,611**	20,874
Tax liabilities		**17,957**	6,215
Secured bank borrowings – due within one year	*34*	**45,342**	–
		302,455	143,338
Net current assets		**251,734**	254,194
Total assets less current liabilities		**730,390**	420,132

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	35	**12,953**	12,952
Reserves		**380,825**	316,521
Equity attributable to owners of the Company		**393,778**	329,473
Non-controlling interests	36	**176,612**	80,432
Total equity		**570,390**	409,905
Non-current liability			
Secured bank borrowing – due after one year	34	**160,000**	10,227
		730,390	420,132

The consolidated financial statements on pages 46 to 114 were approved and authorised for issue by the Board of Directors on 29 March 2011 and are signed on its behalf by:

Li Shaofeng
DIRECTOR

Chen Zheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2010

	Share capital HK$'000	Share premium reserve HK$'000	Capital contribution reserve HK$'000 (Note a)	Contributed surplus reserve HK$'000 (Note b)	Statutory reserve HK$'000 (Note c)	Share options reserve HK$'000	Exchange reserve HK$'000	Special reserve HK$'000 (Note d)	Retained earnings HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	12,952	–	445	245,881	680	38,765	21,599	(46,366)	31,075	305,031	72,921	377,952
Profit for the year	–	–	–	–	–	–	–	–	14,419	14,419	17,358	31,777
Other comprehensive expenses	–	–	–	–	–	–	(34)	–	–	(34)	(20)	(54)
Total comprehensive (expenses) income for the year	–	–	–	–	–	–	(34)	–	14,419	14,385	17,338	31,723
Sub-total	12,952	–	445	245,881	680	38,765	21,565	(46,366)	45,494	319,416	90,259	409,675
Exercise of share options of a subsidiary	–	–	–	–	–	–	–	–	–	–	230	230
Lapse of share options granted	–	–	–	–	–	(11,420)	–	–	11,420	–	–	–
Lapse of share options granted by a subsidiary	–	–	–	–	–	–	–	–	10,057	10,057	(10,057)	–
Transfer to statutory reserve	–	–	–	–	5,682	–	–	–	(5,682)	–	–	–
At 31 December 2009 and 1 January 2010	12,952	–	445	245,881	6,362	27,345	21,565	(46,366)	61,289	329,473	80,432	409,905
Profit for the year	–	–	–	–	–	–	–	–	31,397	31,397	58,329	89,726
Other comprehensive income	–	–	–	–	–	–	10,094	–	–	10,094	1,639	11,733
Total comprehensive income for the year	–	–	–	–	–	–	10,094	–	31,397	41,491	59,968	101,459
Sub-total	12,952	–	445	245,881	6,362	27,345	31,659	(46,366)	92,686	370,964	140,400	511,364
Exercise of share options	1	36	–	–	–	(9)	–	–	–	28	–	28
Exercise of share options of a subsidiary *(Note e)*	–	–	–	–	–	–	–	4,226	–	4,226	2,374	6,600
Lapse of share options granted	–	–	–	–	–	(4,792)	–	–	4,792	–	–	–
Non-controlling interests arising on acquisition of a subsidiary *(Note 38)*	–	–	–	–	–	–	–	–	–	–	27,927	27,927
Recognition of equity-settled share-based payments	–	–	–	–	–	18,560	–	–	–	18,560	5,911	24,471
At 31 December 2010	12,953	36	445	245,881	6,362	41,104	31,659	(42,140)	97,478	393,778	176,612	570,390

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2010

Notes:

(a) Capital contribution reserve represents accumulated effect of imputed interest on amount due to other related party.

(b) Contributed surplus reserve represents (1) the difference between the nominal value of share capital of the Company and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002, amounting to approximately HK$40,271,000 and; (2) the transfer of the share premium reserve of approximately HK$589,670,000 as at 31 December 2007 to contributed surplus reserve which was applied to eliminate the deficit of the Company of approximately HK$384,060,000 as at 31 December 2007, in accordance to a special resolution passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008.

(c) As stipulated by the rules and regulations in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), the subsidiaries of the Company established in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their registered capital thereafter any further appropriation is optional and is determinable by the companies' boards of directors.

(d) Special reserve represents (1) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary acquired from non-controlling shareholders during the year ended 31 December 2007 amounting to approximately HK$46,366,000 which will be recognised in the consolidated statement of comprehensive income upon the disposal of the subsidiary and; (2) the difference arising on dilution of interest in a subsidiary upon the exercise of the share options during the year ended 31 December 2010 of approximately HK$4,226,000.

(e) The difference arising on dilution of interest in a subsidiary of approximately HK$4,226,000 represents the excess of proceeds from exercise of share options of GDC Technology Limited ("GDC Technology"), an indirect non-wholly owned subsidiary of the Company, of HK$6,600,000 received by GDC Technology over the carrying amount of non-controlling interests deemed to be disposed of amounting to approximately HK$2,374,000. The amount is recognised in special reserve in the current year upon the adoption of HKAS 27 (as revised in 2008) (see note 2).

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before tax	105,127	37,940
Adjustments for:		
Share-based payment expense	24,471	–
Depreciation of property, plant and equipment	11,512	6,017
Impairment of convertible loan receivable	7,519	–
Allowance for inventories	6,406	3,581
Finance costs	2,306	809
Loss on disposal of property, plant and equipment	1,291	24
Amortisation of prepaid lease payments	126	125
Share of loss of an associate	106	287
Amortisation of intangible asset	–	633
Loss on dilution of interest in a subsidiary	–	165
Interest income	(4,072)	(6,313)
Changes in fair value of held-for-trading investments	(168)	(859)
Gain on disposal of intangible asset and imputed interest income	–	(5,670)
Operating cashflow before movements in working capital	154,624	36,739
Increase in inventories	(29,777)	(22,846)
Increase in productions work in progress	(11,578)	–
Decrease in amounts due from customers for contract work	6,000	13,719
Increase in trade receivables	(59,071)	(33,972)
Increase in other receivables, prepayments and deposits	(36,278)	(34,291)
Increase in advances from customers	12,405	8,956
(Decrease) increase in amounts due to customers for contract work	(89)	1,182
Increase in trade payables	13,782	24,907
Increase in other payables and accruals	23,569	20,538
Decrease in amounts due to fellow subsidiaries	(1,194)	(12,121)
Cash from operations	72,393	2,811
Income tax paid	(3,846)	(915)
NET CASH FROM OPERATING ACTIVITIES	68,547	1,896

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(157,992)**	(98,681)
Acquisition of a subsidiary	*38*	**(63,149)**	–
(Increase) decrease in pledged bank deposits		**(44,218)**	1,517
Purchase of structured deposits		**(41,169)**	–
Additions in investment properties		**(8,934)**	–
Investment in available-for-sale investment		**–**	(568)
Proceeds from redemption of (investment in) a convertible loan receivable		**113,382**	(45,454)
Interest received		**2,426**	694
Proceeds from disposal of intangible asset, net of transaction costs		**–**	249,148
Proceeds from disposal of property, plant and equipment		**–**	358
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(199,654)**	107,014
FINANCING ACTIVITIES			
New bank loans raised		**194,754**	25,000
Proceeds from exercise of share options of a subsidiary		**6,600**	65
Proceeds from issue of the Company's shares upon exercise of its share options		**28**	–
Advance from an associate		**–**	20,874
Interest paid		**(6,244)**	(809)
Repayment of loan from a fellow subsidiary		**–**	(30,000)
Repayment of bank loans		**–**	(29,546)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**195,138**	(14,416)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**64,031**	94,494
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**166,604**	72,155
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**5,018**	(45)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, COMPRISING BANK BALANCES AND CASH		**235,653**	166,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Upon the dilution of equity interest in the Company as a result of shares of the Company issued on exercise of its share options in December 2010, Upper Nice Assets Ltd., a private company incorporated in the British Virgin Islands ("BVI") and a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a public listed company incorporated in Bermuda with its shares listed on the Stock Exchange, ceased to be the holding company of the Company. The Group becomes an associate of Shougang Grand thereafter. 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 and other particulars of its principal subsidiaries are set out in note 45.

The functional currency of the Company is the United States dollars. 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 ("HKFRSs")

New and revised Standards and Interpretations applied in the current year

In the current year, the Company and its subsidiaries (the "Group") have applied a number of new and revised Standards, Amendments to Standards and Interpretations ("revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the financial year beginning on 1 January 2010.

Except for HKAS 27 (as revised in 2008), the application of these revised HKFRSs in the current year had no material effect on the amounts reported in the consolidated financial statements and/or disclosures set out in the consolidated financial statements.

HKFRS 3 (as revised in 2008) "Business Combinations"

The Group applies HKFRS 3 (as revised in 2008) prospectively to business combinations for which the acquisition date is on or after 1 January 2010. In the current year, the Group acquires 68% of the registered capital of 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) ("Guangdong Shishang"), a limited liability company established in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), which has been accounted for as acquisition of assets and assumption of liabilities as it does not constitute a business under HKFRS 3 (as revised in 2008). As there is no transaction during the current year in which HKFRS 3 (as revised in 2008) is applicable, the adoption of HKFRS 3 (as revised in 2008) has no material effect on the consolidated statement of comprehensive income for the current or prior accounting years.

Results of the Group in future years may be affected by future transactions for which HKFRS 3 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

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

New and revised Standards and Interpretations applied in the current year *(Continued)*

HKAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements"

The adoption of HKAS 27 (as revised in 2008) has resulted in change in the Group's accounting policy for changes in ownership interests in subsidiaries of the Group.

Specifically, HKAS 27 (as revised in 2008) has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of HKAS 27 (as revised in 2008) has affected the accounting for the Group's dilution of interest in GDC Technology Limited ("GDC Technology"), an indirect non-wholly owned subsidiary of the Company, upon exercise of its share options in the current year. The change in policy has resulted in the difference of approximately HK$4,226,000 between the proceeds received upon exercise of these share options of HK$6,600,000 and the non-controlling interests recognised of approximately HK$2,374,000 being recognised directly in equity attributable to the owner of the Company, instead of in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of approximately HK$4,226,000. In addition, the proceeds received in the current year of HK$6,600,000 have been included in cash inflow from financing activities.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under HKAS 27 (as revised in 2008), non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of HKAS 27 (as revised in 2008) has resulted in share options reserve relating to the share option scheme of GDC Technology, being included as part of non-controlling interests in the consolidated statement of financial position and consolidated statement of changes in equity (see note 36 for details). Previously, such share options reserve was presented separately in the consolidated statement of financial position and consolidated statement of changes in equity.

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

New and revised Standards and Interpretations applied in the current year *(Continued)*

In the current year, the application of HKAS 27 (as revised in 2008) has affected the accounting for dilution of interest in a subsidiary as follows:

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	HK$'000
Decrease in profit for the year arising on non-recognition of difference arising on dilution of interest in a subsidiary	4,226

The effect of the above change in accounting policy on the Group's basic and diluted earnings per share for the current year is as follows:

Impact on basic and diluted earnings per share

	Basic *HK cents*	**Diluted** *HK cents*
Earnings per share before adjustment	2.75	2.75
Adjustment arising from change in accounting policy in relation to non-recognition of difference arising on dilution of interest in a subsidiary	(0.33)	(0.33)
Reported earnings per share	2.42	2.42

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments to Standards and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

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

New and revised Standards and Interpretations issued but not yet effective *(Continued)*

[1] Effective for annual periods beginning on or after 1 February 2010.

[2] Effective for annual periods beginning on or after 1 July 2010.

[3] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

[4] Effective for annual periods beginning on or after 1 January 2011.

[5] Effective for annual periods beginning on or after 1 July 2011.

[6] Effective for annual periods beginning on or after 1 January 2012.

[7] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *"Financial Instruments"* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *"Financial Instruments"* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *"Financial Instruments: Recognition and Measurement"* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company (the "Directors") anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new standard will affect the classification and measurement of the Group's available-for-sale investment and may affect the classification and measurement of the Group's other financial assets but not of the Group's financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The principal accounting policies are set below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. 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. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *"Impairment of Assets"* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Training fee income is recognised over the period of the training course on a straight line basis. Unearned training fee income received is recorded as advances from customers.

Technical service income is recognised when the service is provided.

Deposits received from customers for goods or services to be provided in the future are included in the consolidated statement of financial position under current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from provision of assembly and integration services in connection with deployment of digital cinema equipment under Virtual Print Fee ("VPF") agreements and exhibition agreements (collectively referred to as "VPF Arrangement") is recognised when the services have been rendered and the equipment are installed and ready for their intended use.

Rental income is recognised on a straight line basis over the relevant lease terms.

Revenue from exhibition of motion pictures is recognised when the motion pictures are exhibited.

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 Group's right to receive payment, which is based on a certain percentage of the relevant box office receipts, has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Contracts for computer graphic ("CG") creation and production

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

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances from customers. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in supply of goods and services, or for administrative purposes (other than property under construction) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than property under construction) less their estimated residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purpose are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair values at the end of the reporting period, provided that the fair values of the properties under construction can be estimated reliably. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in profit or loss in the year in which it arises.

When the fair value of an investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or the construction is completed, whichever is earlier.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in the profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

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

Productions work in progress

Productions work in progress are stated at the lower of cost and net realisable value. Costs include all direct costs associated with the productions of television series or movies. Production costs are classified to television series or movies under inventories upon completion.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial asset at FVTPL represents held-for-trading investments and those designated as at FVTPL on initial recognition. A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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. Subsequent to initial recognition, loans and receivables (including convertible loan receivable, trade receivables, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are neither designated nor classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period subsequent to initial recognition. (See accounting policy on impairment of financial assets below.)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period given and observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity instruments

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 to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to fellow subsidiaries, amount due to an associate and secured bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

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 profit or loss.

Share-based payment transactions

Share options granted to the Directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Share options granted in exchange of services

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

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

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

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

Provision for litigation

The management of the Group monitors any litigation against the Group closely. Provision for litigation is made based on management assessment with reference to legal opinion on the possible outcome and potential liability to the Group. As at 31 December 2010 and 2009, there is no foreseeable financial impact to the Group and no provision for litigation has been made. Details are set out in note 39.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in note 34, and total equity, comprising share capital and reserves.

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using total debt to equity ratio. This percentage as at 31 December 2010 and 2009 were as follows:

	2010	2009
	HK$'000	*HK$'000*
Total debt (1)	**205,342**	10,227
Equity (2)	**570,390**	409,905
Total debt to equity percentage (%)	**36**	2

The Directors consider that the Group maintains a healthy capital ratio as at 31 December 2010 as the Group has an excess of current assets over current liabilities.

Notes:

(1) Total debt equals to secured bank borrowings.

(2) Equity includes all capital and reserves of the Group.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investment	**588**	568
Financial assets at FVTPL		
Held-for-trading investments	**2,566**	2,398
Financial assets designated at FVTPL	**41,169**	–
Loans and receivables (including cash and cash equivalents)	**435,930**	365,590
Financial liabilities		
Amortised cost	**349,963**	83,884

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, convertible loan receivable, trade receivables, other receivables, held-for-trading investments, structured deposits, pledged bank deposits, bank balances and cash, trade payables, other payables, amounts due to fellow subsidiaries, amount due to an associate and secured bank borrowings. 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.

Market risk

(i) Currency risk

The Group earns revenue mainly in United States dollars and Renminbi, and incurs costs mainly in United States dollars, Renminbi and Hong Kong 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. As at 31 December 2010 and 2009, the Group has no significant foreign currency exposure.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the market interest rate on certain variable-rate bank balances as disclosed in note 30 and secured variable-rate bank borrowing as disclosed in note 34, which carry interest at prevailing market interest rates and the People's Bank of China Renminbi Lending Rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China Renminbi Lending Rate arising from the Group's Renminbi denominated bank borrowing.

The Group's fair value interest rate risk related primarily to its fixed-rate other receivables related to the VPF Arrangement, fixed-rate convertible loan receivable and secured fixed-rate borrowings as disclosed in notes 22, 28 and 34, respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management would consider hedging significant interest rate exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for variable-rate borrowing and bank balances at the end of the reporting period. The analysis is prepared assuming the balance outstanding at the end of the reporting period are outstanding for the whole year. A 100 basis points (2009: 100 basis points) increase or decrease and 30 basis points (2009: 30 basis points) increase are used for variable-rate borrowing and bank balances, respectively and represents management's assessment of the reasonably possible change in interest rate. As at 31 December 2010, bank balances carry interest at market rates which range from 0.01% to 1.35% per annum (2009: 0.01% to 0.36% per annum), the Directors consider that the Group's exposure to the decrease in interest rates for bank balances is not significant and therefore the decrease in interest rate is not included in the sensitivity analysis.

Variable-rate borrowing

If interest rates had been 100 basis points (2009: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately HK$1,218,000 (2009: HK$77,000).

Variable-rate bank balances

If interest rates had been 30 basis points (2009: 30 basis points) higher and all other variables were held constant, the Group's profit for the year would increase by approximately HK$66,000 (2009: HK$52,000).

The increase in the Group's sensitivity to interest rates during the current year is mainly due to the increase in variable-rate borrowing.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group currently does not use any derivative contracts to hedge its exposure to equity price risk. However, the management will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 5% (2009: 5%) higher/lower, profit before tax for the year ended 31 December 2010 would increase/decrease by approximately HK$128,000 (2009: HK$120,000) as a result of the changes in fair value of held-for-trading investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2010 and 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's credit risk is also attributable to other receivables related to the VPF Arrangement as disclosed in note 22. The management of the Group reviews the recoverability of the amount at the end of the reporting period and considers the repayment history and credit quality. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on structured 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 for its trade receivables by geographical locations is mainly in the PRC which accounted for approximately 47% (2009: 72%) of the total trade receivables as at 31 December 2010. The Group's concentration of credit risk for its other receivables related to the VPF Arrangement as at 31 December 2010 and 2009 by geographical locations is entirely in Hong Kong.

The Group has concentration of credit risk as approximately 30% (2009: 30%) and approximately 64% (2009: 66%) of the total trade receivables is due from the Group's largest customer and the five largest customers, respectively, which are major companies in the digital cinema industry. The Group has concentration of credit risk as approximately 7% (2009: 8%) and approximately 31% (2009: 39%) of the total other receivables related to the VPF Arrangement is due from the Group's largest VPF customer and the five largest VPF customers, respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The following table details the Group's contractual maturity for its non-derivative financial liabilities based on the agreed repayments term. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cash flows are estimated by using interest rate at the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate %	Repayable on demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows as at 31.12.2010 *HK$'000*	Carrying amount at 31.12.2010 *HK$'000*
2010							
Non-derivative financial liabilities							
Trade payables	–	45,027	536	–	–	45,563	45,563
Other payables	–	5,617	71,830	–	–	77,447	77,447
Amount due to an associate	–	21,611	–	–	–	21,611	21,611
Secured bank borrowings							
– variable-rate	6	–	2,353	147,779	42,741	192,873	162,352
– fixed-rate	2	43,850	–	–	–	43,850	42,990
		116,105	74,719	147,779	42,741	381,344	349,963

	Weighted average effective interest rate %	Repayable on demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows as at 31.12.2009 *HK$'000*	Carrying amount at 31.12.2009 *HK$'000*
2009							
Non-derivative financial liabilities							
Trade payables	–	29,965	1,816	–	–	31,781	31,781
Other payables	–	3,235	16,573	–	–	19,808	19,808
Amounts due to fellow subsidiaries	–	1,194	–	–	–	1,194	1,194
Amount due to an associate	–	20,874	–	–	–	20,874	20,874
Secured bank borrowing							
– variable-rate	6	203	404	12,256	–	12,863	10,227
		55,471	18,793	12,256	–	86,520	83,884

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value

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

- The fair value of financial assets with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices; and

- The fair value of the other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Held-for-trading investments	**2,566**	**–**	**–**	**2,566**
Structured deposits	**–**	**41,169**	**–**	**41,169**
	2,566	**41,169**	**–**	**43,735**

	2009			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Held-for-trading investments	2,398	–	–	2,398

There were no transfers between Level 1 and 2 in both years.

7. REVENUE

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

	2010 HK$'000	2009 HK$'000
Sales of goods	**519,099**	286,932
Training fee	**22,135**	19,031
Technical service income	**20,461**	13,526
Revenue from contracts for CG creation and production	**12,997**	55,558
Revenue from provision of assembly and integration services	**8,128**	4,703
Rental income	**1,199**	1,343
Revenue from exhibition of motion pictures	**–**	1,454
Royalty income from share of box office receipts	**–**	570
	584,019	383,117

8. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group is currently organised into five operating divisions, including a new division – cultural park, which is derived from the acquisition of Guangdong Shishang as disclosed in note 38. These operating divisions are the basis that is regularly reviewed by the CODM and are analysed under HKFRS 8 as follows:

- CG creation and production – CG production and exhibition of motion pictures and production of television series and movies.
- Digital content distribution and exhibitions – (i) sales of digital cinema equipment; (ii) provision of technical service; (iii) leasing of digital cinema equipment; and (iv) holding of contractual rights to share box office receipts
- Deployment of digital cinema network in Asia – provision of assembly and integration services
- CG training courses – provision of CG and animation training
- Cultural park – media entertainment and related commercial property development

The above operating divisions constitute the operating segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenues and results by operating segments:

For the year ended 31 December 2010

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	Deployment of digital cinema network in Asia HK$'000	CG training courses HK$'000	Cultural park HK$'000	Consolidated HK$'000
Revenue	**12,997**	**539,971**	**8,128**	**22,135**	**788**	**584,019**
Segment result	**(21,193)**	**164,463**	**1,240**	**4,915**	**(5,302)**	**144,123**
Unallocated income						**1,815**
Unallocated expenses						**(16,234)**
Share of loss of an associate						**(106)**
Share-based payment expense						**(24,471)**
Profit before tax						**105,127**

For the year ended 31 December 2009

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	Deployment of digital cinema network in Asia HK$'000	CG training courses HK$'000	Consolidated HK$'000
Revenue	57,012	302,371	4,703	19,031	383,117
Segment result	209	46,060	845	5,117	52,231
Unallocated income					6,502
Unallocated expenses					(20,506)
Share of loss of an associate					(287)
Profit before tax					37,940

8. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit recognised by or loss incurred from each segment without allocation of investment income, central administration costs, share of loss of an associate and share-based payment expense recognised by the Company, the Group's management companies and investment holding companies. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

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

Segment assets and liabilities

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

At 31 December 2010

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	Deployment of digital cinema network in Asia *HK$'000*	CG training courses *HK$'000*	Cultural park *HK$'000*	Consolidated *HK$'000*
Assets						
Segment assets	375,628	417,246	53,047	24,592	133,660	1,004,173
Interest in an associate						22,196
Unallocated assets						6,476
Consolidated total assets						1,032,845
Liabilities						
Segment liabilities	232,536	191,108	3,922	10,503	61	438,130
Amount due to an associate						21,611
Unallocated liabilities						2,714
Consolidated total liabilities						462,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2009

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	Deployment of digital cinema network in Asia *HK$'000*	CG training courses *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	192,276	174,443	26,063	22,694	415,476
Interest in an associate					21,569
Convertible loan receivable					119,255
Unallocated assets					7,170
Consolidated total assets					563,470
Liabilities					
Segment liabilities	27,005	90,850	–	11,513	129,368
Amounts due to fellow subsidiaries					1,194
Amount due to an associate					20,874
Unallocated liabilities					2,129
Consolidated total liabilities					153,565

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

- all assets are allocated to the operating segments other than interest in an associate, convertible loan receivable and unallocated assets attributed to the Company, the Group's management companies and investment holding companies.

- all liabilities are allocated to the operating segments other than amounts due to fellow subsidiaries, amount due to an associate and unallocated liabilities attributed to the Company, the Group's management companies and investment holding companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2010

	Amounts included in the measure of segment profit or loss or segment assets							
	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	Deployment of digital cinema network in Asia *HK$'000*	CG training courses *HK$'000*	Cultural park *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated total *HK$'000*
Additions to non-current assets *(Note)*	193,166	4,941	480	7,197	10,238	216,022	1,186	217,208
Depreciation of property, plant and equipment	7,089	1,753	63	2,063	186	11,154	358	11,512
Allowance for inventories	6,318	88	–	–	–	6,406	–	6,406
Loss on disposal of property, plant and equipment	–	200	–	1,091	–	1,291	–	1,291
Amortisation of prepaid lease payments	126	–	–	–	–	126	–	126
Interest income	632	1,744	–	37	12	2,425	1,647	4,072
Impairment of convertible loan receivable	–	–	–	–	–	–	7,519	7,519
Share-based payment expense	–	–	–	–	–	–	24,471	24,471

For the year ended 31 December 2009

	Amounts included in the measure of segment profit or loss or segment assets						
	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	Deployment of digital cinema network in Asia *HK$'000*	CG training courses *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated total *HK$'000*
Additions to non-current assets *(Note)*	93,370	2,462	–	2,849	98,681	–	98,681
Depreciation of property, plant and equipment	2,532	1,749	3	1,383	5,667	350	6,017
Reversal of doubtful debts	–	–	–	227	227	–	227
Allowance for inventories	–	3,581	–	–	3,581	–	3,581
Loss on disposal of property, plant and equipment	24	–	–	–	24	–	24
Gain on disposal of intangible asset and imputed interest income	–	5,670	–	–	5,670	–	5,670
Amortisation of intangible asset (included in cost of sales)	–	633	–	–	633	–	633
Amortisation of prepaid lease payments	125	–	–	–	125	–	125
Interest income	359	290	–	21	670	5,643	6,313

8. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in the PRC, the United States, Hong Kong and Singapore.

The Group's revenue from external customers by geographical market based on geographical location of customers, and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets *(Note)*	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**268,625**	262,338	**407,662**	117,909
United States	**171,447**	48,288	**315**	243
Hong Kong	**31,930**	13,889	**5,826**	2,977
Europe	**31,401**	17,716	**–**	–
Korea	**25,628**	11,958	**–**	–
Other regions	**54,988**	28,928	**45**	59
	584,019	383,117	**413,848**	121,188

Note: Non-current assets exclude available-for-sale investment, interest in an associate, other receivables and pledged bank deposit.

Information about major customer

Revenue from a customer contributing over 10% of the total revenue of the Group for the year ended 31 December 2010 is approximately HK$64,276,000 (2009: HK$50,899,000) under the digital content distribution and exhibitions division.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2009: 8) Directors are as follows:

For the year ended 31 December 2010

	Fees *HK$'000*	Share-based payments *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive Directors:					
Mr. Li Shaofeng *(Note)*	–	5,944	1,000	–	6,944
Mr. Chen Zheng	–	3,278	2,860	12	6,150
Mr. Jin Guo Ping	–	1,155	1,300	12	2,467
Mr. Cao Zhong *(Note)*	–	–	–	–	–
	–	10,377	5,160	24	15,561
Non-executive Director:					
Mr. Leung Shun Sang, Tony	190	2,887	–	–	3,077
Independent non-executive Directors:					
Mr. Kwong Che Keung, Gordon	240	576	–	–	816
Mr. Hui Hung, Stephen	240	576	–	–	816
Prof. Japhet Sebastian Law	240	576	–	–	816
	720	1,728	–	–	2,448
	910	14,992	5,160	24	21,086

Note: Mr. Cao Zhong resigned and Mr. Li Shaofeng was appointed as Director on 10 May 2010, respectively.

For the year ended 31 December 2010, Mr. Cao Zhong waives emoluments of approximately HK$654,000. No other Directors waive any emoluments for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2009

	Fees	Salaries and other benefits	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:				
Mr. Cao Zhong	–	1,800	–	1,800
Mr. Chen Zheng	–	2,860	12	2,872
Mr. Jin Guo Ping	–	1,300	12	1,312
Ms. Lu Yi, Gloria *(Note)*	–	1,852	9	1,861
	–	7,812	33	7,845
Non-executive Director:				
Mr. Leung Shun Sang, Tony	190	–	–	190
Independent non-executive Directors:				
Mr. Kwong Che Keung, Gordon	240	–	–	240
Mr. Hui Hung, Stephen	240	–	–	240
Prof. Japhet Sebastian Law	240	–	–	240
	720	–	–	720
	910	7,812	33	8,755

Note: Ms. Lu Yi, Gloria resigned on 5 September 2009.

For the year ended 31 December 2009, Mr. Cao Zhong waived emoluments of approximately HK$1,812,000. No other Directors waived any emoluments for the year ended 31 December 2009.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2009: four) are the Directors whose emoluments are included in the disclosures above. The emoluments of the remaining two (2009: one) individuals are as follows:

	2010 **HK$'000**	2009 *HK$'000*
Salaries and other benefits	**4,532**	2,769
Share-based payments	**4,352**	–
Retirement benefits schemes contributions	**13**	12
	8,897	2,781

The emoluments of the above two (2009: one) individuals are within the following bands:

	2010 **Number of employees**	2009 *Number of employees*
HK$3,000,001 – HK$3,500,000	**1**	1
HK$5,500,001 – HK$6,000,000	**1**	–
	2	1

10. OTHER INCOME AND GAINS

	2010 **HK$'000**	2009 *HK$'000*
Interest income	**4,072**	6,313
Government grants *(Note a)*	**3,905**	3,282
Changes in fair value of held-for-trading investments	**168**	859
Gain on disposal of intangible asset and imputed interest income *(Note b)*	**–**	5,670
Others	**1,566**	310
	9,711	16,434

Notes:

(a) The government grants are issued by the relevant PRC authorities to certain of the Group's subsidiaries to subsidise CG production, exhibition of motion pictures and CG training in the PRC. There are no specific conditions attached to the grants or the conditions attached are satisfied. The Group has recognised the grants upon receipt.

(b) The amount represented a one-off gain of approximately HK$2,543,000 on disposal of an intangible asset to China Film Group Corporation, the majority shareholder of an associate of the Group, and the relevant imputed interest income of approximately HK$3,127,000 derived from the deferred consideration. Details of the disposal were set out in the circular of the Company dated 23 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

11. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on:		
Bank borrowing not wholly repayable within five years	**5,441**	–
Bank borrowings wholly repayable within five years	**803**	530
Loan from a fellow subsidiary	**–**	279
Total borrowing costs	**6,244**	809
Less: amount capitalised in the cost of qualifying assets	**(3,938)**	–
	2,306	809

12. OTHER EXPENSES AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Research and development costs	**9,257**	8,043
Impairment of convertible loan receivable	**7,519**	–
Loss on dilution of interest in a subsidiary *(Note)*	**–**	165
	16,776	8,208

Note: The amount for the year ended 31 December 2009 represented approximately HK$165,000 from the loss on dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology in that year.

13. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
The income tax expense comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**13,292**	6,163
Hong Kong	**1,117**	–
Other jurisdictions	**992**	–
	15,401	6,163

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

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate progressively increased to 25% over a five-year transitional period. The tax concession for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the EIT Law based on the revised income tax rate. For the year ended 31 December 2010, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 22% to 25% (2009: 20% to 25%).

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary is exempted from PRC EIT for two years starting from its first profit making year which was in 2007, followed by a 50% reduction for the next three years.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

13. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before tax	**105,127**	37,940
Tax calculated at PRC EIT rate of 25% (2009: 25%)	**26,282**	9,485
Tax effect of income not taxable for tax purposes	**(84)**	(253)
Tax effect of expenses not deductible for tax purpose	**11,639**	2,902
Tax effect of tax losses not recognised	**7,647**	9,668
Utilisation of tax losses previously not recognised	**(10,470)**	(3,821)
Utilisation of temporary differences arising from unrealised profits resulting from intra-group transactions previously not recognised	**–**	(3,808)
Effect of tax exemption and tax concession granted to subsidiaries in the PRC	**(15,671)**	(7,600)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,942)**	(410)
Income tax expense for the year	**15,401**	6,163

At the end of the reporting period, the Group mainly has the following tax losses, of which no deferred tax assets are recognised due to the unpredictability of the future profit streams:

	2010	2009
	HK$'000	*HK$'000*
Estimated tax losses that may be carried forward	**68,849**	80,141

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately HK$178 million as at 31 December 2010 (2009: HK$68 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.

14. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging:		
Staff costs, including directors' emoluments *(Note 9(a))*:		
– Salaries, wages and other benefits	**87,639**	94,274
– Share-based payment expense	**24,471**	–
– Retirement benefit scheme contributions	**3,333**	2,729
Total staff costs	**115,443**	97,003
Less: amounts included in productions work in progress	**(5,347)**	–
amounts included in contract costs	**(480)**	(21,095)
	109,616	75,908
Allowance for inventories	**6,406**	3,581
Amortisation of intangible asset (included in cost of sales)	**–**	633
Amortisation of prepaid lease payments	**126**	125
Auditor's remuneration	**1,151**	1,117
Cost of inventories recognised as an expense	**228,076**	180,015
Contract costs recognised as an expense:		
Staff costs	**19,467**	30,974
Others	**2,308**	18,737
	21,775	49,711
Depreciation of property, plant and equipment	**13,300**	11,175
Less: amounts included in productions work in progress	**(1,663)**	–
amounts included in contract costs	**(125)**	(5,158)
	11,512	6,017
Exchange loss, net	**197**	–
Loss on disposal of property, plant and equipment	**1,291**	24
Minimum lease payments under operating leases for land and buildings	**7,930**	6,040
Less: amounts included in productions work in progress	**(186)**	–
amounts included in contract costs	**(20)**	(681)
	7,724	5,359
and after crediting:		
Exchange gain, net	**–**	1,429
Reversal of doubtful debts	**–**	227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

15. DIVIDENDS

No dividend is paid or proposed during the year ended 31 December 2010 (2009: Nil), nor has any dividend been proposed since the end of the reporting period (2009: Nil).

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2010 ***HK$'000***	2009 *HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**31,397**	14,419

	2010 ***'000***	2009 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,295,246**	1,295,246
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	**119**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,295,365**	1,295,246

The computation of diluted earnings per share for the year ended 31 December 2009 did not assume the exercise of the share options of the Company and GDC Technology as the exercise prices of the share options were higher than the average market price of the shares of the Company and the fair value of the shares of GDC Technology as determined by the Directors for that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

17. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improvements	Plant and machinery	Equipment, furniture and fixtures	Computer equipment	Motor vehicles	Property under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1 January 2009	–	30,090	–	4,763	45,350	1,408	8,983	90,594
Additions	–	2,938	–	901	11,862	503	82,477	98,681
Disposals	–	–	–	(34)	(3,264)	–	–	(3,298)
At 31 December 2009	–	33,028	–	5,630	53,948	1,911	91,460	185,977
Exchange realignment	–	1,098	–	172	1,462	16	2,962	5,710
Additions	–	29,307	70,116	4,363	5,334	1,222	97,932	208,274
Disposals	–	(30,959)	–	(788)	(432)	(43)	–	(32,222)
Transfer	192,354	–	–	–	–	–	(192,354)	–
At 31 December 2010	192,354	32,474	70,116	9,377	60,312	3,106	–	367,739
DEPRECIATION AND AMORTISATION								
At 1 January 2009	–	27,384	–	2,016	32,141	788	–	62,329
Provided for the year	–	2,170	–	965	7,888	152	–	11,175
Eliminated on disposals	–	–	–	(31)	(2,885)	–	–	(2,916)
At 31 December 2009	–	29,554	–	2,950	37,144	940	–	70,588
Exchange realignment	16	977	28	88	1,080	15	–	2,204
Provided for the year	632	1,700	1,153	1,433	7,949	433	–	13,300
Eliminated on disposals	–	(29,549)	–	(764)	(597)	(21)	–	(30,931)
At 31 December 2010	648	2,682	1,181	3,707	45,576	1,367	–	55,161
CARRYING VALUES								
At 31 December 2010	191,706	29,792	68,935	5,670	14,736	1,739	–	312,578
At 31 December 2009	–	3,474	–	2,680	16,804	971	91,460	115,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

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

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

Building	Over the shorter of term of the lease of the land, or 50 years
Leasehold improvements	Over the term of the lease or 10 years
Plant and machinery	10 years
Equipment, furniture and fixtures	5 years
Computer equipment	3 years
Motor vehicles	5 years

The building of the Group is situated on land in the PRC with a lease term of 50 years.

As at 31 December 2009, the property under construction represented a building in the PRC for the Group's own use, which was in the course of construction.

As at 31 December 2010, all of the Group's building and plant and machinery have been pledged to secure banking facilities granted to the Group (see note 34).

18. INVESTMENT PROPERTIES

	Properties interest under construction *HK$'000*
COST	
At 1 January 2010	–
Exchange realignment	1,988
Acquired on acquisition of a subsidiary *(Note 38)*	84,473
Additions	8,934
At 31 December 2010	95,395

The investment properties represent the properties interest held under an operating lease on a property project under construction which arose from a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") entered into by Guangdong Shishang and 珠江電影製片有限公司 (Pearl River Film Production Company Limited*) ("Pearl River Film Production"), a limited liability company established in the PRC and a state–owned enterprise, to redevelop 珠影文化產業園 (Pearl River Film Cultural Park*). Details of the property project are disclosed in note 38.

The investment properties are situated on land with a lease term of 35 years and stated at cost as the fair value of the properties under construction cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise medium–term leasehold land in the PRC and analysed for reporting purposes as follows:

	2010 HK$'000	2009 HK$'000
Current	129	125
Non–current	5,875	5,799
	6,004	5,924

As at 31 December 2009 and 2010, all of the Group's prepaid lease payments have been pledged to secure banking facilities granted to the Group (see note 34).

20. AVAILABLE–FOR–SALE INVESTMENT

As at 31 December 2010, the investment represents 5% equity interest in a private entity established in the PRC. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so variable that the Directors are of the opinion that the fair value cannot be measured reliably.

21. INTEREST IN AN ASSOCIATE

	2010 HK$'000	2009 HK$'000
Cost of investment in an unlisted associate	21,806	21,806
Share of post–acquisition exchange difference recognised in other comprehensive income	1,938	1,205
Share of post–acquisition losses	(1,548)	(1,442)
	22,196	21,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

21. INTERESTS IN AN ASSOCIATE *(Continued)*

As at 31 December 2010 and 2009, the Group has interest in the following associate:

Name of entity	Form of business structure	Country of establishment and operation	Proportion of nominal value of registered capital held by the Group *(Note)*	Principal activity
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	49%	Inactive

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

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

	2010 **HK$'000**	2009 HK$'000
Total assets	**45,298**	44,018
Total liabilities	**–**	–
Net assets	**45,298**	44,018
The Group's share of net assets of an associate	**22,196**	21,569
Revenue	**–**	60
Loss for the year	**216**	586
The Group's share of loss of an associate for the year	**106**	287

22. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2010 *HK$'000*	2009 *HK$'000*
Non-current:		
Other receivables related to the VPF Arrangement	**42,024**	20,657
Current:		
Deposits	**40,995**	8,687
Other receivables related to the VPF Arrangement	**6,298**	4,153
Others	**7,535**	14,230
	54,828	27,070

The Group has signed certain VPF Arrangement with distributors and exhibitors for digital content (collectively referred to as "Third Parties") in connection with the deployment of digital cinema equipment in cinemas in Asia. Under the VPF Arrangement, the Group provides (i) assembly and integration services in respect of digital cinema equipment and install the equipment in the exhibitors' cinemas as well as (ii) financing to the Third Parties for a portion of the agreed purchase price of this digital cinema equipment. These receivables, which are to be settled based on the usage of the digital cinema equipment within 10 years from the date of installation, bear interest at the cost of funds incurred by that subsidiary arising from the VPF Arrangement at a fixed-rate of 10% per annum (2009: 10%). During the year ended 31 December 2010, the Group installs 39 (2009: 49) units of digital cinema equipment under the VPF Arrangement.

The Directors expect that approximately HK$6,298,000 (2009: HK$4,153,000) will be settled within one year after the end of the reporting period and this amount is therefore classified as a current asset.

23. INVENTORIES

	2010 *HK$'000*	2009 *HK$'000*
Raw materials, net of allowance of approximately HK$2,502,000 (2009: approximately HK$1,974,000)	**28,604**	7,059
Finished goods, net of allowance of approximately HK$8,152,000 (2009: approximately HK$2,492,000)	**30,266**	27,888
	58,870	34,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

24. PRODUCTIONS WORK IN PROGRESS

	2010 HK$'000	2009 HK$'000
Television series	9,223	–
Movies	4,018	–
	13,241	–

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following are details of contracts from CG production in progress which is expected to be realised within 1 year from the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Contract costs incurred plus recognised profits less recognised losses	662	49,991
Less: progress billings	(827)	(44,562)
	(165)	5,429
Analysed for reporting purposes as:		
Amounts due from customers for contract work	–	5,795
Amounts due to customers for contract work	(165)	(366)
	(165)	5,429

26. TRADE RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables	101,490	41,497
Less: allowance for doubtful debts	–	(159)
	101,490	41,338

The Group allows different credit periods to its customers, ranging from 30 days to 120 days, depending on the type of products sold or services provided.

26. TRADE RECEIVABLES *(Continued)*

The following is an aged analysis at the end of the reporting period of the trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	2010	2009
	HK$'000	*HK$'000*
Within three months	**62,270**	39,531
Three to six months	**29,382**	1,484
Over six months	**9,838**	323
	101,490	41,338

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In addition, the Group will review the repayment history of trade receivables by each customer with reference to the payment terms to determine the recoverability of trade receivables. Trade receivables that are neither past due nor impaired have good credit quality according to their past repayment history.

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$9,838,000 (2009: approximately HK$323,000) which are past due at the end of the reporting period for which the Group does not provide for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these receivables.

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

	2010	2009
	HK$'000	*HK$'000*
Six to nine months	**4,285**	140
Nine to twelve months	**1,637**	156
Over one year	**3,916**	27
Total	**9,838**	323

Movement in the allowance for doubtful debts

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**159**	386
Amounts written off during the year	**(159)**	–
Amounts recovered during the year	**–**	(227)
At 31 December	**–**	159

26. TRADE RECEIVABLES *(Continued)*

Included in the allowance for doubtful debts as at 31 December 2009 were individually impaired trade receivables with an aggregate balance of approximately HK$159,000, in respect of which the customer was not fully satisfied with quality of the service provided by the CG training division and the amounts was considered uncollectible.

27. HELD–FOR–TRADING INVESTMENTS

Held–for–trading investments as at 31 December 2010 and 2009 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange.

28. CONVERTIBLE LOAN RECEIVABLE

On 23 December 2008, the Group entered into a conditional agreement (the "Loan Facility Arrangement") with Southern International Limited (the "Borrower"), a private investment company incorporated in Hong Kong, 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 share capital of the Borrower (the "Conversion Option") 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. Details of the transaction were set out in the circular of the Company dated 23 January 2009.

The Conversion Option was granted to the Group pursuant to the Loan Facility Arrangement. Accordingly, the management assessed the fair value of the Loan Receivable and considered that the principal amount of the Loan Receivable approximated to its fair value at initial recognition and the fair value of the Conversion Option was insignificant at initial recognition and 31 December 2009 and 2010. In view of the business operation of the Borrower, the Group considers the carrying amounts of the Loan receivable and Conversion Option approximate to their fair values as at 31 December 2009 and 2010.

The convertible loan receivable is stated at amortised cost using the effective interest method at 6% per annum less any identified impairment losses. During the year ended 31 December 2010, the Borrower repaid substantial amount of the principal amount of Loan Receivable and the accrued interest thereon amounting to approximately HK$113 million. As at 31 December 2010, the Group reviewed the recoverability and recognised a full impairment of approximately HK$7,519,000 in respect of the remaining outstanding balance.

29. STRUCTURED DEPOSITS

As at 31 December 2010, the structured deposits consist of principal-protected financial products of RMB15,000,000 (equivalent to approximately HK$17,647,000) and financial products of RMB19,994,000 (equivalent to approximately HK$23,522,000) issued by banks in the PRC, which carried interest at average interest rate of 1.93% per annum, depending on the market price of financial instruments, including listed shares and debentures, payable daily. The Group has the right to redeem the structured deposits at any time with one day notice. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The Directors consider the fair values of the structured deposits, which are based on the prices of the counterparty banks would pay to redeem at 31 December 2010, approximate to their carrying values as at 31 December 2010.

The structured deposits are redeemed in January and February 2011. The change in fair values up to the date of redemption is not significant.

30. BANK BALANCES/PLEDGED BANK DEPOSITS

As at 31 December 2010, bank balances carries interest at market rates which range from 0.01% to 1.35% per annum (2009: 0.01% to 0.36% per annum).

As at 31 December 2010, the pledged bank deposits represent deposits pledged to a bank to secure short–term bank borrowings (classified as current liabilities). The pledged bank deposits will be released upon the settlement of the bank borrowings. As at 31 December 2010, the deposits carried interest rate from 1.98% to 2.02% per annum.

As at 31 December 2009, the non–current pledged bank deposit represented a deposit pledged to a bank to secure a construction agreement entered into with an independent third party. The pledged bank deposit was released upon the settlement of the construction payable in 2010. As at 31 December 2009, the deposit carried interest rate at 1.98% per annum.

31. TRADE PAYABLES

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

	2010	2009
	HK$'000	*HK$'000*
Within three months	**45,027**	29,965
Three to six months	**536**	1,816
	45,563	31,781

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

32. OTHER PAYABLES AND ACCRUALS

	2010	2009
	HK$'000	*HK$'000*
Construction payable	**47,046**	436
Accruals	**45,328**	27,352
Other tax payables	**12,101**	10,112
Others	**18,300**	9,260
	122,775	47,160

33. AMOUNTS DUE TO FELLOW SUBSIDIARIES AND AN ASSOCIATE

The amounts due to fellow subsidiaries were unsecured, non-interest bearing and fully settled during the year. The amount due to an associate is unsecured, non-interest bearing and repayable on demand.

34. SECURED BANK BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Secured variable–rate bank borrowing	**162,352**	10,227
Secured fixed–rate bank borrowings	**42,990**	–
	205,342	10,227
Carrying amount repayable:		
Within one year	**45,342**	–
More than one year, but not exceeding two years	**23,529**	–
More than two years, but not exceeding three years	**28,235**	2,273
More than three years, but not exceeding four years	**32,941**	7,954
More than four years, but not exceeding five years	**42,353**	–
Over five years	**32,942**	–
	205,342	10,227
Less: Amounts due within one year shown under current liabilities	**(45,342)**	–
Amounts due after one year	**160,000**	10,227

As at 31 December 2010, the variable–rate bank borrowing for financing the construction costs of the building in the PRC is denominated in Renminbi, secured by the Group's pledge of building and plant and machinery (see note 17) and prepaid lease payments (see note 19), and carries interest at the People's Bank of China Renminbi Lending Rate per annum. The interest rates (which are also equal to contracted interest rate) in the Group's bank borrowing ranged from 5.94% to 5.96% (2009: 5.103% to 5.94%) per annum. Interest is repricing every month.

As at 31 December 2010, the fixed–rate bank borrowings for general working capital are secured by pledge of bank deposits, carries at fixed interest rates from 1.98% to 2.02% per annum and are repayable within twelve months from the end of the reporting period.

As at 31 December 2010, the Group has the banking facilities of approximately RMB35,000,000 (equivalent to approximately HK$41,176,000) not utilised, which is secured by pledge of building and plant and machinery (see note 17) and prepaid lease payments (see note 19) and will be expired beyond one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

35. SHARE CAPITAL

	Number of shares	Share capital *HK$*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 2010	2,400,000,000	24,000,000
Issued and fully paid		
At 1 January 2009 and 2010	1,295,245,540	12,952,455
Exercise of share options	10,000	100
At 31 December 2010	1,295,255,540	12,952,555

36. NON–CONTROLLING INTERESTS

	Share of share options reserve of a subsidiary *HK$'000*	Share of other net assets of subsidiaries *HK$'000*	Total *HK$'000*
At 1 January 2009	15,838	57,083	72,921
Share of profit for the year	–	17,358	17,358
Share of other comprehensive expenses for the year	–	(20)	(20)
Exercise of share options of a subsidiary	(6)	236	230
Lapse of share options granted by a subsidiary	(10,057)	–	(10,057)
At 31 December 2009 and 1 January 2010	5,775	74,657	80,432
Share of profit for the year	–	58,329	58,329
Share of other comprehensive income for the year	–	1,639	1,639
Exercise of share options of a subsidiary	(2,750)	5,124	2,374
Non–controlling interests arising on acquisition of a subsidiary	–	27,927	27,927
Recognition of equity-settled share-based payments	5,911	–	5,911
At 31 December 2010	8,936	167,676	176,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

37. SHARE OPTION SCHEMES

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed at its Special General Meeting held on 18 July 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on 4 August 2013.

An option may be exercised at any time during the period to be determined and notified by the Directors to the grantee but may not be exercised after the expiry of ten years from the date of offer of that opinion. Option is immediately vested at the date of grant and a consideration of HK$1 is payable upon acceptance the offer.

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

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

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

During the year, 58,250,000 options (2009: Nil) and 12,000,000 options (2009: Nil) have been granted under the Scheme and the GDC Technology Share Option Scheme to the Directors and employees, respectively.

37. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the Company's share options during the year ended 31 December 2010:

				Number of share options						
Category of grantees	Date of grant	Exercise period	Exercise price per share	Balance as at 1.1.2010	Granted during the year	Transferred to other category during the year	Transferred from other category during the year	Exercised during the year	Lapsed during the year	Balance as at 31.12.2010
Directors	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	15,680,000	–	(4,900,000)	–	(10,000)	–	10,770,000
	14.12.2010	14.12.2010 – 13.8.2013	HK$0.87	–	32,350,000	–	–	–	–	32,350,000
Employees	22.3.2007	22.3.2007 – 21.3.2010	HK$1.07	2,300,000	–	(100,000)	–	–	(2,200,000)	–
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	2,262,000	–	(200,000)	–	–	(2,062,000)	–
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	9,900,000	–	–	–	–	–	9,900,000
	14.12.2010	14.12.2010 – 13.8.2013	HK$0.87	–	25,900,000	–	–	–	–	25,900,000
Other participants	22.3.2007	22.3.2007 – 21.3.2010	HK$1.07	–	–	–	100,000	–	(100,000)	–
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	1,781,000	–	–	200,000	–	(1,981,000)	–
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	–	–	4,900,000	–	–	4,900,000
Totals				31,923,000	58,250,000	(5,200,000)	5,200,000	(10,000)	(6,343,000)	83,820,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

37. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2010:

				Number of share options					
Category of grantees	**Date of grant**	**Exercise period**	**Exercise price per share**	**Balance as at 1.1.2010**	**Granted during the year**	**Transferred to other category during the year**	**Transferred from other category during the year**	**Exercised during the year**	**Balance as at 31.12.2010**
Directors	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	5,280,000	–	(1,650,000)	–	(1,650,000)	1,980,000
	14.12.2010	14.12.2010 – 13.12.2015	HK$2.00	–	6,000,000	–	–	–	6,000,000
Employees	2.11.2007	2.11.2007 –1.11.2012	HK$2.00	1,650,000	–	–	–	–	1,650,000
	14.12.2010	14.12.2010 – 13.12.2015	HK$2.00	–	6,000,000	–	–	–	6,000,000
Other participant	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	–	–	–	1,650,000	(1,650,000)	–
Totals				6,930,000	12,000,000	(1,650,000)	1,650,000	(3,300,000)	15,630,000

The following table sets out the movements in the Company's share options during the year ended 31 December 2009:

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	Balance as at 1.1.2009	Transferred to other category during the year	Transferred from other category during the year	Lapsed during the year	Balance as at 31.12.2009
Directors	6.10.2006	6.10.2006 –5.10.2009	HK$0.30	8,008,200	–	–	(8,008,200)	–
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	27,680,000	(12,000,000)	–	–	15,680,000
Employees	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	6.10.2006	6.10.2006 – 5.10.2009	HK$0.30	2,500,820	–	–	(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	–	–	12,000,000	(12,000,000)	–
Totals				54,432,020	(12,000,000)	12,000,000	(22,509,020)	31,923,000

37. SHARE OPTION SCHEMES *(Continued)*

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2009:

				Number of share options			
Category of grantees	Date of grant	Exercise period	Exercise price per share	Balance as at 1.1.2009	Exercised during the year	Lapsed during the year	Balance as at 31.12.2009
Directors	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	17,280,000	–	(12,000,000)	5,280,000
Employees	5.10.2006	5.10.2006 – 4.10.2009	HK$0.145	3,913,332	(130,000)	(3,783,332)	–
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	1,650,000	–	–	1,650,000
Other participants	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	853,333	(320,000)	(533,333)	–
Totals				23,699,998	(450,000)	(16,319,998)	6,930,000

The estimated fair values of the options granted under the Scheme and the GDC Technology Share Option Scheme granted to the Directors on 14 December 2010 are HK$0.3598 and HK$0.5587, respectively. The estimated fair values of the options granted under the Scheme and the GDC Technology Share Option Scheme to employees on 14 December 2010 are HK$0.2672 and HK$0.4265, respectively.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	The Scheme	**The GDC Technology Share Option Scheme**
Weighted average share price/share price	HK$0.87	HK$1.89
Exercise price	HK$0.87	HK$2.00
Expected volatility	79.5%	41.3%
Expected life	2.7 years	5 years
Risk–free rate	1.03%	2.04%
Expected dividend yield	NIL	NIL
Likelihood of early exercise of Directors	2.8 times*	2.8 times*
Likelihood of early exercise of employees	1.5 times*	1.5 times*
Forfeiture rates for Directors	12.37%	23.46%
Forfeiture rates for employees	0%	30.59%

* Assumed Directors and employees would exercise the options once the share price is 2.8 and 1.5 times the exercise price of share options of the Company and GDC Technology, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

37. SHARE OPTION SCHEMES *(Continued)*

Expected volatility of the Company was determined by using the average annualised standard derivations of the continuously compounded rate of return on the share price of the Company on the grant date. 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.

The share price of GDC Technology was determined by discounted cash flow model based on management's best estimate. Expected volatility of GDC Technology was determined by the average annualised standard derivations of the continuously compounded rate of return on the share price of other companies in the similar industry on the grant date. 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.

The Group recognised total expense of approximately HK$24,471,000 for the year ended 31 December 2010 (2009: Nil) in relation to share options granted by the Company 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 the Directors' best estimates. The value of an option varies with different variables of certain subjective assumptions.

38. ACQUISITION OF A SUBSIDIARY

On 30 March 2010, the Group acquired 68% of the registered capital of Guangdong Shishang for consideration of RMB56,060,000 (equivalent to approximately HK$63,705,000). The acquisition was completed on 20 April 2010. Details of the acquisition were set out in the announcement of the Company dated 30 March 2010.

Guangdong Shishang is a limited liability company established in the PRC on 23 March 2007. Guangdong Shishang entered into the Framework Agreement with Pearl River Film Production to redevelop the Pearl River Film Cultural Park. Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Shishang, in return for predetermined monthly payment from Guangdong Shishang for a term up to 31 December 2045. Guangdong Shishang is responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Shishang has to return all properties to Pearl River Film Production.

The Pearl River Film Cultural Park is located at No. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC and the present land use right is owned by Pearl River Film Production. After the redevelopment, which is expected to be completed in the next 2 to 3 years, the Pearl River Film Cultural Park will have a commercial area, a cultural entertainment area and a film production and development area, which will be held for investment properties purpose.

The acquisition of the subsidiary is accounted for as acquisition of assets and assumption of liabilities.

38. ACQUISITION OF A SUBSIDIARY *(Continued)*

The net assets of the subsidiary acquired as of the completion date of the acquisition are as follows:

	HK$'000
Net assets acquired:	
Investment properties	84,473
Other receivables, prepayments and deposits	12,305
Bank balances and cash	556
Other payables and accruals	(5,702)
	91,632
Non–controlling interests	(27,927)
Total consideration satisfied by cash	63,705
Net cash outflow arising on acquisition:	
Cash consideration paid	63,705
Bank balances and cash acquired	(556)
	63,149

39. LITIGATION

The Company received an original complaint in April 2010 and a first amended complaint in July 2010 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its subsidiaries namely GDC Technology, GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses is not a core business of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

39. LITIGATION *(Continued)*

The Group filed its answer and counterclaims in November 2010 and amended answer and counterclaims in January 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D does not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011, X6D filed its answer to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

A Joint Rule 26 Statement was submitted to the Court in January 2011 and the Court issued a scheduling order in February 2011 that the motion for summary judgment shall be filed by no later than 30 November 2011. No trial date has been set up to the date of this report for issue.

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

40. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments under non–cancellable operating leases which fall due as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Within one year	**7,422**	6,135
In the second to fifth year inclusive	**12,565**	13,177
Over five years	**–**	3,558
	19,987	22,870

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

41. CAPITAL COMMITMENTS

	2010	2009
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provide in the consolidated financial statements in respect of:		
Additions in investment properties	**64,182**	–
Acquisition of property, plant and equipment	**–**	125,733
	64,182	125,733

42. RETIREMENT BENEFITS SCHEME

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 of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling approximately HK$212,000 (2009: HK$205,000) payable to the Retirement Schemes as at 31 December 2010 are included in other payables and accruals. There was no forfeited contribution in both years.

43. EVENT AFTER THE REPORTING PERIOD

On 10 January 2011, Guangdong Shishang entered into a construction contract for the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park at an aggregate consideration of approximately RMB78.17 million (equivalent to approximately HK$91.96 million). Details of the transaction were set out in the announcement of the Company dated 11 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

44. RELATED PARTY TRANSACTIONS

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

	Notes	2010 HK$'000	2009 HK$'000
(i) Rental expense paid to Shougang Grand in respect of office premises	(a)	**405**	1,620
(ii) Management fee charged by Shougang Concord International Enterprises Company Limited, an associate of the controlling shareholder of Shougang Grand	(b)	**–**	2,945
(iii) Interest expense paid to SCG Finance Corporation Limited, a subsidiary of Shougang Grand	(b)	**–**	279

Notes:

(a) The transaction was carried out in accordance with relevant lease agreements.

(b) The transaction was carried out in accordance with the relevant agreements.

(b) Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Share–based payments	**15,405**	–
Short–term benefits	**13,225**	13,762
Post–employment benefits	**119**	57
	28,749	13,819

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

Details of balances with related parties as at the end of the reporting period are set out in the consolidated statement of financial position and in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2010 %	directly 2009 %	indirectly 2010 %	indirectly 2009 %	Principal activities
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	100	–	–	Investment holding
GDC Asset Management Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Animation investment
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Investment holding in Hong Kong
GDC Digital Cinema Network Limited	Incorporated	BVI	1 ordinary share of US$1 each	–	–	100	100	Investment holding and deployment of digital cinema network in Asia
GDC Digital Cinema Network Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	100	Deployment of digital cinema network in Asia
GDC International Limited	Incorporated	Samoa	1 ordinary share of US$1	–	–	100	100	Provision of CG animation creation and production services
GDC Management Services Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Provision of administration and management service
GDC Technology Limited	Incorporated	BVI	236,345,092 ordinary shares of HK$0.10 each	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology (Hong Kong) Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2010 %	directly 2009 %	indirectly 2010 %	indirectly 2009 %	Principal activities
GDC Technology of America LLC	Incorporated	United States	US$1,000	–	–	61.0	–	Provision of computing solutions for digital content distribution and exhibitions
GDC Technology Pte. Ltd.	Incorporated	Singapore	900,000 ordinary shares of S$1 each	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology (USA), LLC	Incorporated	United States	US$1,000	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions
Shougang GDC Media Holding Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	100	Investment holding
北京科創環球數碼技術有限公司	Established	PRC	RMB200,000	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions
重慶環球數碼動畫有限公司	Established	PRC	RMB10,000,000	–	–	100	100	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
廣東時尚置業有限公司	Established	PRC	RMB10,000,000	–	–	68	–	Investment in cultural park
廣州環球數碼媒體科技有限公司	Established	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued capital/ paid up capital	Attributable equity interest of the Group directly 2010 %	directly 2009 %	indirectly 2010 %	indirectly 2009 %	Principal activities
環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited	Established	PRC	US$1,300,000	–	–	100	100	Provision of CG and animation training in the PRC
環球數碼媒體科技研究(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited	Established	PRC	US$35,353,896	–	–	100	100	Provision of CG and animation training, development of multimedia software and hardware, provision of related technical consultancy services, and property holding in the PRC
深圳市環球數碼影視文化有限公司	Established	PRC	RMB3,000,000	–	–	100	100	Animation Investment
深圳市環球數碼科技有限公司	Established	PRC	RMB10,000,000	–	–	61.0	61.8	Provision of computing solutions for digital content distribution and exhibitions
無錫環球數碼動畫有限公司	Established	PRC	RMB500,000	–	–	100	100	Provision of CG and animation training in the PRC
重慶北部新區環球數碼動畫職業培訓學校	School	PRC	RMB100,000	–	–	100	100	Provision of CG and animation training in the PRC
上海環球數碼職業技能培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC
深圳市南山區環球數碼培訓學校	School	PRC	RMB200,000	–	–	100	100	Provision of CG and animation training in the PRC

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

46. SUMMARISED FINANCIAL INFORMATION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Non–current assets		
Interests in subsidiaries	–	–
Amounts due from subsidiaries	39,357	161,116
	39,357	161,116
Current assets		
Prepayment, deposits and other receivables	365	303
Bank balances and cash	64	1,489
	429	1,792
Current liabilities		
Other payables and accruals	1,376	1,451
Net current (liabilities) assets	(947)	341
Net assets	38,410	161,457
Capital and reserves		
Share capital	12,953	12,952
Reserves	25,457	148,505
Total equity	38,410	161,457

PARTICULARS OF PROPERTIES

Details of the Group's properties at the end of the reporting period are as follows:

Location	Existing use	Lease term	Attributable interest of the Group
Investment properties			
No. 352 and 354, Xin Gang Zhong Road Guangzhou the People's Republic of China	Commercial	Medium	68%
Building			
No. 9, Gaoxin Central Avenue 3rd Nanshan District, Shenzhen the People's Republic of China	Commercial	Medium	100%

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	**2010** ***HK$'000***
Revenue	54,920	246,125	120,180	383,117	**584,019**
(Loss) profit from operations	(17,165)	28,868	(75,045)	39,036	**107,539**
Finance costs	(13,080)	(4,002)	(2,428)	(809)	**(2,306)**
Share of loss of an associate	–	(298)	(857)	(287)	**(106)**
(Loss) profit before tax	(30,245)	24,568	(78,330)	37,940	**105,127**
Income tax (expense) credit	–	(3,099)	2,183	(6,163)	**(15,401)**
(Loss) profit for the year	(30,245)	21,469	(76,147)	31,777	**89,726**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	**2010** ***HK$'000***
Total assets	26,501	528,477	499,058	563,470	**1,032,845**
Total liabilities	181,210	93,286	121,106	153,565	**462,455**
Net (liabilities) assets	(154,709)	435,191	377,952	409,905	**570,390**