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)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

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.

This announcement, 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 announcement 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 announcement misleading.

* *For identification purpose only*

FINAL RESULTS

The board of Directors of the Company (the "Board") is pleased to announce the audited financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 with comparative figures for the year ended 31 December 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	3	**584,019**	383,117
Cost of sales		**(335,592)**	(280,180)
Gross profit		**248,427**	102,937
Other income and gains	5	**9,711**	16,434
Distribution costs and selling expenses		**(21,066)**	(7,913)
Administrative expenses		**(88,286)**	(64,214)
Finance costs	6	**(2,306)**	(809)
Other expenses and losses	7	**(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	8	**(15,401)**	(6,163)
Profit for the year	9	**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	10		
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	11	**312,578**	115,389
Investment properties	12	**95,395**	–
Prepaid lease payments	13	**5,875**	5,799
Available-for-sale investment		**588**	568
Interest in an associate		**22,196**	21,569
Other receivables	14	**42,024**	20,657
Pledged bank deposit		**–**	1,956
		478,656	165,938
Current assets			
Inventories	15	**58,870**	34,947
Productions work in progress	16	**13,241**	–
Amounts due from customers for contract work	17	**–**	5,795
Trade receivables	18	**101,490**	41,338
Other receivables, prepayments and deposits	14	**54,828**	27,070
Prepaid lease payments	13	**129**	125
Held-for-trading investments		**2,566**	2,398
Convertible loan receivable	19	**–**	119,255
Structured deposits	20	**41,169**	–
Pledged bank deposits		**46,243**	–
Bank balances and cash		**235,653**	166,604
		554,189	397,532
Current liabilities			
Advances from customers		**49,042**	35,748
Amounts due to customers for contract work	17	**165**	366
Trade payables	21	**45,563**	31,781
Other payables and accruals	22	**122,775**	47,160
Amounts due to fellow subsidiaries		**–**	1,194
Amount due to an associate		**21,611**	20,874
Tax liabilities		**17,957**	6,215
Secured bank borrowings – due within one year	23	**45,342**	–
		302,455	143,338
Net current assets		**251,734**	254,194
Total assets less current liabilities		**730,390**	420,132
Capital and reserves			
Share capital	24	**12,953**	12,952
Reserves		**380,825**	316,521
Equity attributable to owners of the Company		**393,778**	329,473
Non-controlling interests	25	**176,612**	80,432
Total equity		**570,390**	409,905
Non-current liability			
Secured bank borrowing – due after one year	23	**160,000**	10,227
		730,390	420,132

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2010

	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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	–	–	–	–	–	–	–	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 26)*	–	–	–	–	–	–	–	–	–	–	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 CASH FLOWS
For The Year Ended 31 December 2010

	Note	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
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(157,992)**	(98,681)
Acquisition of a subsidiary	*26*	**(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

	2010	2009
	HK$'000	*HK$'000*
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:

1. 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 announcement, 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.

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 25 for details). Previously, such share options reserve was presented separately in the consolidated statement of financial position and consolidated statement of changes in equity.

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]

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 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.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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 27.

3. REVENUE

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

	2010	2009
	HK$'000	*HK$'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 computer graphic ("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

4. 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 26. 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.

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	Digital content distribution and exhibitions	Deployment of digital cinema network in Asia	CG training courses	Cultural park	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

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**

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

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 is detailed below:

	Revenue from external customers	
	2010	2009
	HK$'000	*HK$'000*
The PRC	**268,625**	262,338
United States	**171,447**	48,288
Hong Kong	**31,930**	13,889
Europe	**31,401**	17,716
Korea	**25,628**	11,958
Other regions	**54,988**	28,928
	584,019	383,117

5. OTHER INCOME AND GAINS

	2010	2009
	HK$'000	*HK$'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 ("CFGC"), 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.

6. 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

7. 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.

8. 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.

9. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Staff costs, including directors' emoluments:		
– 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

10. 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	2009
	HK$'000	*HK$'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	2009
	'000	*'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.

11. PROPERTY, PLANT AND EQUIPMENT

	Carrying values
	HK$'000
At 1 January 2010	115,389
Exchange realignment	3,506
Additions	208,274
Depreciation for the year	(13,300)
Disposals	(1,291)
At 31 December 2010	312,578

12. INVESTMENT PROPERTIES

	Properties interest under construction *HK$'000*
COST	
At 1 January 2010	–
Exchange realignment	1,988
Acquired on acquisition of a subsidiary *(Note 26)*	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 26.

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.

13. 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

14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2010	2009
	HK$'000	*HK$'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 Virtual Print Fee ("VPF") agreements and exhibition agreements (collectively referred to as "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.

15. INVENTORIES

	2010	2009
	HK$'000	*HK$'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

16. PRODUCTIONS WORK IN PROGRESS

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

17. 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	2009
	HK$'000	*HK$'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

18. TRADE RECEIVABLES

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

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.

19. 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.

20. 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 fair value through profit or loss 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.

21. 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.

22. 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

23. 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:

	2010	2009
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

24. 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

25. 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

26. 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.

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

27. 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.

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 announcement 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.

28. 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

29. 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.

FINAL DIVIDEND

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

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 PRC, 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 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.

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.

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 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.

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 Cinema® 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.

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 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.

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.

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 comprehensives 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 Guangdong Shishang, a limited liability company established in the PRC. Guangdong Shishang has entered into a framework agreement with Pearl River Film Production to jointly redevelop the 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.

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 26 and 1, 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.

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 27 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.

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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2010.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding securities transactions by 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 enquiries with the Directors, all Directors confirm 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.

AUDIT COMMITTEE

The consolidated financial statements of the Group for the year ended 31 December 2010 have been audited by the Company's auditor, Messrs. Deloitte Touche Tohmatsu. A meeting of the Audit Committee of the Company was held with the auditor and the management of the Company for, amongst other things, reviewing the final results of the Group for the year ended 31 December 2010.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") will be held at Concord Room, 8/F., Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 19 May 2011 (Thursday) at 10 a.m.. The notice of the Annual General Meeting will be separately published in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2011 to Thursday, 19 May 2011, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for attend and vote at the Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m on Monday, 16 May 2011.

APPRECIATION

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

By Order of the Board
Li Shaofeng
Chairman

Hong Kong, 29 March 2011

As at the date of this announcement, the Board comprises Mr. Li Shaofeng (Chairman and Executive Director), Mr. Chen Zheng (Managing Director and Executive Director), Mr. Jin Guo Ping (Deputy Managing Director and Executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon (Independent Non-executive Director), Mr. Hui Hung, Stephen (Independent Non-executive Director) and Prof. Japhet Sebastian Law (Independent Non-executive Director).

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.gdc-world.com.