



首長四方（集團）有限公司*
SHOUGANG CONCORD GRAND (GROUP) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 730)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

INTERIM RESULTS

The Board of Directors of Shougang Concord Grand (Group) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Six months ended 30 June	
	2007	2006	
	HK\$'000	HK\$'000	
	(unaudited)	(unaudited)	
Continuing operations			
Revenue	3	48,857	31,226
Cost of sales		(22,228)	(19,155)
Write down of production work in progress		—	(2,999)
Gross profit		26,629	9,072
Other income		12,278	12,176
Distribution and selling expenses		(3,221)	(4,079)
Administrative expenses		(53,015)	(27,688)
Increase in fair value of investment properties		2,990	5,800
Changes in fair value of held-for-trading investments		11,806	(3,106)
Finance costs	4	(2,881)	(5,059)
Share of result of a jointly controlled entity		—	723
Share of results of associates		(924)	(437)
Gain on disposal and dilution of interests in subsidiaries	5	279,536	—
Gain on disposal of interest in a jointly controlled entity	6	61,184	—
Profit (loss) before tax		334,382	(12,598)
Income tax expense	7	(1,644)	(130)
Profit (loss) for the period from continuing operations		332,738	(12,728)
Discontinued operation	8		
Profit for the period from discontinued operation		—	20,352
Profit for the period	9	332,738	7,624

		Six months ended 30 June	
	<i>NOTE</i>	2007 <i>HK\$'000</i> (unaudited)	2006 <i>HK\$'000</i> (unaudited)
Attributable to:			
Equity holders of the parent		333,488	8,553
Minority interests		(750)	(929)
		<u>332,738</u>	<u>7,624</u>
Earnings (loss) per share	11		
From continuing and discontinued operations			
Basic		<u>HK29.25 cents</u>	<u>HK0.75 cents</u>
Diluted		<u>HK28.50 cents</u>	<u>N/A</u>
From continuing operations			
Basic		<u>HK29.25 cents</u>	<u>(HK1.04) cents</u>
Diluted		<u>HK28.50 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

		30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
	NOTES		
Non-current assets			
Property, plant and equipment	12	20,949	7,792
Prepaid lease payments	12	6,791	1,650
Investment properties	12	139,200	136,098
Goodwill	13	10,397	–
Interests in associates		15,224	15,108
Advance to an associate	14	57,704	57,704
		250,265	218,352
Current assets			
Inventories		9,195	10,801
Production work in progress		18,704	11,727
Trade receivables	15	16,886	10,072
Prepayments, deposits and other receivables		41,164	7,050
Prepaid lease payments		137	32
Amounts due from customers for contract work		2,374	808
Amounts due from related parties	16	117,491	–
Amounts due from associates		9,950	28,168
Held-for-trading investments		13,945	8,946
Pledged bank deposits		8,935	1,014
Bank balances and cash		319,108	34,705
		557,889	113,323
Interest in a jointly controlled entity held for sale		–	125,489
		557,889	238,812
Current liabilities			
Amounts due to customers for contract work		4,056	1,850
Trade payables	17	3,537	3,844
Other payables and accruals		26,455	50,073
Income received in advance		17,075	12,549
Rental and management fee deposits received		1,006	1,015
Amount due to a related party		580	1,776
Amount due to a shareholder		–	512
Amount due to an associate		19	19
Tax liabilities		3,862	2,266
Borrowings	18	29,180	53,818
Obligations under finance leases		794	1,484
		86,564	129,206
Net current assets		471,325	109,606
Total assets less current liabilities		721,590	327,958

		30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
	<i>NOTES</i>		
Non-current liabilities			
Amount due to a former shareholder of a subsidiary		178	455
Amount due to a fellow subsidiary		–	40,000
Borrowings	18	58,238	64,065
Obligations under finance leases		86	489
Deferred tax liabilities		1,398	1,386
		59,900	106,395
Net assets		661,690	221,563
Capital and reserves			
Share capital	19	11,471	11,369
Reserves		541,272	200,641
Equity attributable to equity holders of the parent		552,743	212,010
Share options reserve of subsidiaries		9,108	5,907
Minority interests		99,839	3,646
Total equity		661,690	221,563

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the parent											
	Share capital	Share premium	Capital contribution reserve	Contributed surplus	Translation reserve	Shares options reserve	Accumulated (losses) profits	Put option reserve	Total	Share options reserve of subsidiaries	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
								(Note)				
At 1 January 2006	11,369	417,690	445	2,135	6,312	-	(227,408)	(6,148)	204,395	-	4,008	208,403
Exchange differences on translation of a jointly controlled entity/subsidiaries representing income recognised directly in equity	-	-	-	-	3,312	-	-	-	3,312	-	32	3,344
Profit (loss) for the period	-	-	-	-	-	-	8,553	-	8,553	-	(929)	7,624
Total recognised income and expense for the period	-	-	-	-	3,312	-	8,553	-	11,865	-	(897)	10,968
Additional contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	500	500
At 30 June 2006	11,369	417,690	445	2,135	9,624	-	(218,855)	(6,148)	216,260	-	3,611	219,871
Exchange differences on translation of a jointly controlled entity/subsidiaries representing income recognised directly in equity	-	-	-	-	6,745	-	-	-	6,745	-	80	6,825
Loss for the period	-	-	-	-	-	-	(23,757)	-	(23,757)	-	(45)	(23,802)
Total recognised income and expense for the period	-	-	-	-	6,745	-	(23,757)	-	(17,012)	-	35	(16,977)
Recognition of share-based payments	-	-	-	-	-	-	-	-	-	5,937	-	5,937
Derecognition of put option liability	-	-	-	-	-	-	6,612	6,148	12,760	-	-	12,760
Exercise of share options	-	-	-	-	-	-	-	-	-	(28)	-	(28)
Transfer upon cancellation of share options	-	-	-	-	-	-	2	-	2	(2)	-	-
At 31 December 2006 and 1 January 2007	11,369	417,690	445	2,135	16,369	-	(235,998)	-	212,010	5,907	3,646	221,563
Exchange differences on translation of associates/subsidiaries representing income and expense recognised directly in equity	-	-	-	-	(527)	-	-	-	(527)	-	21	(506)
Profit (loss) for the period	-	-	-	-	-	-	333,488	-	333,488	-	(750)	332,738
Release of translation reserve upon disposal of interest in a jointly controlled entity	-	-	-	-	(12,352)	-	-	-	(12,352)	-	-	(12,352)
Release of translation reserve upon disposal of interests in subsidiaries	-	-	-	-	983	-	-	-	983	-	-	983
Total recognised income and expense for the period	-	-	-	-	(11,896)	-	333,488	-	321,592	-	(729)	320,863

Attributable to equity holders of the parent

	Share capital HK\$'000	Share premium HK\$'000	Capital contribution reserve HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Shares options reserve HK\$'000	Accumulated (losses) profits HK\$'000	Put option reserve HK\$'000 (Note)	Total HK\$'000	Share options reserve of subsidiaries HK\$'000	Minority interests HK\$'000	Total HK\$'000
Recognition of share-based payments (Note 20)	-	-	-	-	-	14,949	-	-	14,949	7,925	-	22,874
Exercise of share options	102	5,707	-	-	-	(1,625)	-	-	4,184	-	-	4,184
Exercise of share options of a subsidiary	-	-	-	-	-	-	-	-	-	(4,716)	19,407	14,691
Transfer upon cancellation of share options of a subsidiary	-	-	-	-	-	-	8	-	8	(8)	-	-
Additional contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	279,256	279,256
Dilution of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(213,676)	(213,676)
Partial disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	1,538	1,538
Additional investment in subsidiaries shared by minority shareholders	-	-	-	-	-	-	-	-	-	-	10,397	10,397
At 30 June 2007	<u>11,471</u>	<u>423,397</u>	<u>445</u>	<u>2,135</u>	<u>4,473</u>	<u>13,324</u>	<u>97,498</u>	<u>-</u>	<u>552,743</u>	<u>9,108</u>	<u>99,839</u>	<u>661,690</u>

Note: The put option reserve related to the recognition of the obligation to settle a put option written by the Group to minority shareholders during the year ended 31 December 2005, net of option premium. Such put option liability was subsequently reversed during the year ended 31 December 2006 and the option premium of approximately HK\$6,612,000 was transferred to accumulated losses during that year.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<u>(38,961)</u>	<u>(743,535)</u>
INVESTING ACTIVITIES		
Disposal of partial interests in subsidiaries	68,393	(19,016)
Proceeds from disposal of interest in a jointly controlled entity	56,830	–
Interest received	1,734	126
Dividend received from held-for-trading investments	144	–
Purchase of property, plant and equipment	(15,260)	(2,424)
(Increase) decrease in pledged bank deposits	(7,921)	16,606
Prepaid lease payment made	(5,262)	–
Advance to an associate	–	(2,497)
Acquisition of subsidiaries	–	(1,395)
Dividend received from an associate held for sale	–	5,434
Dividend received from a jointly controlled entity	–	3,898
Proceeds from disposal of interest in an associate held for sale	–	2,912
NET CASH FROM INVESTING ACTIVITIES	<u>98,658</u>	<u>3,644</u>
FINANCING ACTIVITIES		
Proceeds from issue of shares by a subsidiary to minority shareholders, net of transaction costs	279,256	–
Proceeds from exercise of share options of a subsidiary	14,691	–
New borrowings raised	13,000	857,290
Proceeds from exercise of share options	4,184	–
Capital contribution from minority shareholders	–	500
Repayment of borrowings	(43,465)	(98,550)
(Repayment to) advance from a fellow subsidiary	(40,000)	12,243
(Repayment to) advance from a related party	(1,473)	555
Repayment of obligations under finance leases	(1,093)	(1,485)
Repayment to a shareholder	(512)	(174)
NET CASH FROM FINANCING ACTIVITIES	<u>224,588</u>	<u>770,379</u>
Net increase in cash and cash equivalents	284,285	30,488
Cash and cash equivalents at beginning of the period	34,705	17,591
Effect of foreign exchange rate changes	118	166
Cash and cash equivalents at end of the period	<u><u>319,108</u></u>	<u><u>48,245</u></u>

NOTES

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The Directors are in the process of assessing the potential impact and expect that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

Revenue represents computer graphic (“CG”) creation and films and television drama production income, the amounts received and receivable for goods sold by the Group to outside customers (less returns and trade discounts), revenue arising from providing training course, property leasing and management fee income and technical service income during the period.

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

The Group was also involved in the finance leasing business for the six months ended 30 June 2006. That operation was discontinued in June 2006 as it was carried out by an associate of the Group thereafter, and was equity accounted for in accordance with Hong Kong Financial Reporting Standard 5 “Non-current Assets Held For Sale and Discontinued Operations” issued by the HKICPA, details of which are set out in Note 8.

Segment information about these divisions is presented below:

Six months ended 30 June 2007

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

Six months ended 30 June 2006

	Continuing operations					Discontinued operation	
	Property leasing and building management services <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG creation and television drama production <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Finance leasing <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	<u>2,785</u>	<u>4,868</u>	<u>19,686</u>	<u>3,887</u>	<u>31,226</u>	<u>13,638</u>	<u>44,864</u>
RESULT							
Segment result	<u>8,110</u>	<u>(6,330)</u>	<u>(7,368)</u>	<u>(34)</u>	(5,622)	(4,819)	(10,441)
Unallocated corporate income					12,460	460	12,920
Unallocated corporate expenses					(11,557)	–	(11,557)
Changes in fair value of held-for-trading investments					(3,106)	–	(3,106)
Finance costs					(5,059)	–	(5,059)
Share of result of a jointly controlled entity	723	–	–	–	723	–	723
Share of results of associates					(437)	–	(437)
Gain on disposal of interest in a subsidiary					<u>24,711</u>	<u>–</u>	<u>24,711</u>
Profit (loss) before tax					12,113	(4,359)	7,754
Income tax expense					<u>(130)</u>	<u>–</u>	<u>(130)</u>
Profit (loss) for the period					<u>11,983</u>	<u>(4,359)</u>	<u>7,624</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	<u>2,872</u>	5,029
Other finance costs	<u>9</u>	30
	<u>2,881</u>	<u>5,059</u>

5. GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES

During the period, Global Digital Creations Holdings Limited (“GDC”), a subsidiary of the Company with its shares listed on the Growth Enterprise Market of the Stock Exchange, has issued in aggregate 260,000,000 new shares through one subscription and two top-up placing and subscriptions (the “Top-up Placing Transactions”). In addition, the Group’s interest in GDC has been diluted upon exercise of GDC’s share options with the issue of approximately 42,770,000 new shares of GDC (the “Dilution”), and the Group also disposed of approximately 44,106,000 shares of GDC (the “Disposal Transaction”) during the period. An aggregate gain on the Top-up Placing Transactions, the Dilution and the Disposal Transaction of approximately HK\$239,241,000 has been recognised in the condensed consolidated income statement.

During the period, GDC Technology Limited (“GDC Technology”), a subsidiary of GDC, issued 52,383,580 new shares (the “Subscription”). Upon completion of the Subscription, the Group’s interest in GDC Technology has been diluted and a gain on dilution of approximately HK\$40,295,000 has been recognised in the condensed consolidated income statement.

6. GAIN ON DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY

On 1 December 2006, the Group has entered into an agreement with China Beijing Shougang Hotel Development Company (“Shougang Hotel”), a wholly owned subsidiary of Shougang Corporation, and Strength Up Investments Limited (“Strength Up”), a wholly owned subsidiary of Shougang Holding (Hong Kong) Limited (“Shougang Holding”), for the disposal of the Group’s 44% interest in Beijing Dongzhimen International Apartment Co. Ltd. (“Beijing Dongzhimen”) to Shougang Hotel and Strength Up for a consideration of RMB170,000,000 (or equivalent to approximately HK\$174,321,000) (the “Dongzhimen Disposal”). Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the People’s Republic of China (the “PRC”, which for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan) and is principally engaged in the provision of serviced apartment services through its ownership of East Lake Villas located in Dongcheng District, Beijing, the PRC. The Dongzhimen Disposal was approved by the independent shareholders of the Company in January 2007 and was completed in June 2007 upon receipt of approval from the relevant PRC authorities. Accordingly, a gain on disposal of interest in a jointly controlled entity of approximately HK\$61,184,000 has been recognised in the condensed consolidated income statement.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2007 HK\$’000	2006 HK\$’000
Continuing operations		
Current tax:		
Hong Kong	521	320
The PRC	1,111	–
	<u>1,632</u>	<u>320</u>
Deferred taxation:		
Current period	12	(190)
	<u>12</u>	<u>(190)</u>
Income tax expense relating to continuing operations	<u><u>1,644</u></u>	<u><u>130</u></u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

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

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

8. DISCONTINUED OPERATION

Discontinued operation

In June 2006, the Group entered into a sale and purchase agreement in respect of a disposal of the Group's 30% effective interest in South China International Leasing Company Limited ("South China Leasing"), which is established in the PRC with principal activities in the provision of finance leasing including the leasing of machinery, equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties in the PRC, at a consideration of HK\$25,000,000 (the "Disposal"). South China Leasing is a sino-foreign equity joint venture established in the PRC on 20 May 1989 with an operation term of 40 years expiring in 2029. Upon completion of the Disposal, the Group's effective interest in South China Leasing decreased from 80% to 50% and South China Leasing became an associate of the Group. Accordingly, the finance leasing business was carried out by the associate of the Group and became a discontinued operation. Details of the Disposal were set out in the circular of the Company dated 6 July 2006.

The profit (loss) for the six months ended 30 June 2006 from the discontinued operation is analysed as follows:

	<i>HK\$'000</i>
Loss of finance leasing business	(4,359)
Gain on disposal of interest in a subsidiary	24,711
	<u>20,352</u>

The results of the finance leasing business for the period from 1 January 2006 to 15 June 2006, which have been included in the condensed consolidated income statement, were as follows:

	<i>HK\$'000</i>
Revenue	13,638
Cost of sales	<u>(9,750)</u>
Gross profit	3,888
Other income	460
Administrative expenses	<u>(8,707)</u>
Loss for the period	<u>(4,359)</u>

The net assets of the finance leasing business at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of	59,322
Attributable goodwill	<u>1,087</u>
	60,409
Gain on disposal	24,711
Amount due to a group company previously eliminated on consolidation	(58,189)
Interests in associates	<u>(2,456)</u>
Total cash consideration	<u><u>24,475</u></u>
Satisfied by:	
Cash	25,000
Direct transaction costs	<u>(525)</u>
	<u><u>24,475</u></u>
Net cash outflow arising on disposal:	
Net cash consideration	24,475
Bank balances and cash disposed of	<u>(43,491)</u>
	<u><u>(19,016)</u></u>

9. PROFIT FOR THE PERIOD

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:						
Allowance for bad and doubtful debts	215	–	–	4,649	215	4,649
Depreciation of property, plant and equipment	2,093	3,430	–	637	2,093	4,067
Less: amounts included in amounts due from (to) customers for contract work	(1,061)	–	–	–	(1,061)	–
	<u>1,032</u>	<u>3,430</u>	<u>–</u>	<u>637</u>	<u>1,032</u>	<u>4,067</u>
and after crediting:						
Dividend income from an associate held for sale	–	5,434	–	–	–	5,434
Dividend income from held-for-trading investments	144	–	–	–	144	–
Interest income from bank deposits	<u>1,734</u>	<u>125</u>	<u>–</u>	<u>1</u>	<u>1,734</u>	<u>126</u>

10. DIVIDEND

No dividend was paid during the six months ended 30 June 2007 and 2006. The Directors did not declare any interim dividend for both periods.

11. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	<u>333,488</u>	<u>8,553</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,140,031	1,136,856
Effect of dilutive potential ordinary shares: – share options	<u>30,125</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,170,156</u>	<u>1,136,856</u>

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Profit for the period attributable to equity holders of the parent	333,488	8,553
Less: profit for the period from discontinued operation	<u>–</u>	<u>(20,352)</u>
Profit (loss) for the purpose of basic and diluted earnings (loss) per share from continuing operations	<u>333,488</u>	<u>(11,799)</u>

The denominators used are the same as those detailed above for basic and diluted earnings per share from continuing and discontinued operations.

From discontinued operation

Basic earnings per share from discontinued operation for the six months ended 30 June 2006 was HK1.79 cents per share, based on the profit for that period from discontinued operation of approximately HK\$20,352,000. The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

No diluted earnings per share from discontinued operation for the six months ended 30 June 2006 was presented because the exercise price of the Company's share options was higher than the average market price of the share for that period.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

During the six months ended 30 June 2007, the Group acquired property, plant and equipment of approximately HK\$15,260,000 and a medium-term leasehold land in the PRC for a consideration of approximately HK\$5,262,000.

The fair value of the Group's investment properties at 30 June 2007 has been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent qualified professional valuer not connected with the Group. AA Property Services Limited is a registered firm of the Hong Kong Institute of Surveyors (the "HKIS"), and has appropriate qualifications. The valuation, which conforms to the HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. The resulting increase in fair value of investment properties of approximately HK\$2,990,000 (30 June 2006: HK\$5,800,000) has been recognised directly in the condensed consolidated income statement.

13. GOODWILL

On 16 March 2007, Upper Nice Assets Ltd. ("Upper Nice"), a wholly owned subsidiary of the Company, and GDC entered into a subscription agreement, pursuant to which Upper Nice has conditionally agreed to subscribe 100,000,000 new shares of GDC at HK\$0.54 per share. The subscription was approved by independent shareholders of GDC at the special general meeting held on 23 April 2007. Accordingly, goodwill of approximately HK\$10,397,000 arose during the six months ended 30 June 2007.

14. ADVANCE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the Directors, the Group will not demand repayment within one year from the balance sheet date and is therefore considered as non-current. Such non-interest bearing advance is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The effective interest rate used was 6%, which approximated to the prevailing market borrowing rate of interest for a similar instrument.

15. TRADE RECEIVABLES

The Group allows an average credit periods of 90 days to its trade customers. The following is an aged analysis of trade receivables net of impairment losses at the balance sheet date:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0 – 90 days	14,106	9,506
91 – 180 days	1,476	519
> 181 days	1,304	47
	<u>16,886</u>	<u>10,072</u>

16. AMOUNTS DUE FROM RELATED PARTIES

		30 June 2007 HK\$'000	31 December 2006 HK\$'000
Strength Up	(Note)	79,386	–
Shougang Hotel	(Note)	38,105	–
		<u>117,491</u>	<u>–</u>

Note: The amounts represent the consideration receivable for the Dongzhimen Disposal as disclosed in Note 6. The amounts are unsecured, non-interest bearing and are repayable by September 2007.

17. TRADE PAYABLES

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0 – 90 days	3,537	3,694
91 – 180 days	–	150
	<u>3,537</u>	<u>3,844</u>

18. BORROWINGS

During the period, the Group obtained a new bank loan of approximately HK\$13 million and repaid borrowings of approximately HK\$43.5 million in accordance with the repayment terms. All loans bear interest at market rates and are repayable over a period of 5 years.

19. SHARE CAPITAL

	Number of ordinary shares		Share capital	
	30 June 2007	31 December 2006	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Ordinary share of HK\$0.01 each				
Authorised:				
At beginning and end of the period/year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the period/year	1,136,856,469	1,136,856,469	11,369	11,369
Exercise of share options (<i>Note</i>)	<u>10,206,000</u>	<u>—</u>	<u>102</u>	<u>—</u>
At the end of the period/year	<u>1,147,062,469</u>	<u>1,136,856,469</u>	<u>11,471</u>	<u>11,369</u>

Note: During the period, an aggregate of 10,206,000 share options were exercised. Accordingly, an aggregate of 10,206,000 ordinary shares with par value of HK\$0.01 each were issued at an exercise price of HK\$0.41 per share. These shares rank pari passu in all material aspects with other shares in issue.

20. SHARE-BASED PAYMENT

The Company

The Company has a share option scheme for eligible directors, employees and other participants of the Group. Details of the share options outstanding during the six months ended 30 June 2007 are as follows:

	Number of share options
Outstanding at 1 January 2007	1,330,679
Granted during the period	93,898,000
Exercised during the period	<u>(10,206,000)</u>
Outstanding at 30 June 2007	<u>85,022,679</u>

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

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

19 January 2007

Grant date share price	HK\$0.41
Exercise price	HK\$0.41
Expected life	10 years
Expected volatility	55.59%
Dividend yield	0%
Risk-free interest rate	4.041%

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

Share-based compensation expenses in respect of grant of the share options by the Company of approximately HK\$14,949,000 for the six months ended 30 June 2007 was included in the administrative expenses.

GDC

GDC has a share options scheme for eligible directors, employees and other participants of GDC and its subsidiaries. Details of the share options outstanding during the six months ended 30 June 2007 are as follows:

	Number of share options
Outstanding at 1 January 2007	69,848,380
Granted during the period	10,230,000
Exercised during the period	(42,769,500)
Outstanding at 30 June 2007	<u><u>37,308,880</u></u>

The closing price of GDC's shares on 22 March 2007 and 4 April 2007, the dates of grant of the 3,000,000 share options and 7,230,000 share options, was HK\$1.07 per share and HK\$1.52 per share, respectively. The fair values of the share options determined at the dates of grant at 22 March 2007 and 4 April 2007 using the Binomial Option Valuation pricing model were approximately HK\$1,734,000 and HK\$6,191,000, respectively.

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

	22 March 2007	4 April 2007
Grant date share price	HK\$1.07	HK\$1.52
Exercise price	HK\$1.07	HK\$1.52
Expected life	3 years	3 years
Expected volatility	89%	97%
Dividend yield	0%	0%
Risk-free interest rate	3.88%	3.89%

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

Share-based compensation expenses in respect of grant of the share options by GDC of approximately HK\$7,925,000 for the six months ended 30 June 2007 was included in the administrative expenses.

21. PLEDGE OF ASSETS

At 30 June 2007, the Group's investment properties and leasehold land and buildings with an aggregate carrying amount of approximately HK\$141.6 million and a bank deposit of approximately HK\$1 million were pledged to banks for bank loans. At 30 June 2007, the outstanding amounts of such bank loans were approximately HK\$84.4 million.

In addition, a bank deposit of approximately HK\$7.9 million as at 30 June 2007 was pledged to a bank to secure purchase agreements entered into with an independent third party. The deposit carries interest rate at 4.85% per annum. The pledged bank deposit will be released upon the settlement of the relevant purchase agreements.

22. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a subsidiary of the Company, entered into a co-production agreement (the "Co-production Agreement") with Westwood Audiovisual and Multimedia Consultants, Inc. ("WAMC") and Production and Partners Multimedia, SAS ("P&PM"), in which the Group has a 25% equity interest, in relation to an animated television series.

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

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

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

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

23. POST BALANCE SHEET EVENTS

- (a) On 4 July 2007, the Company, Upper Nice and GDC entered into a placing and subscription agreement with a placing agent, pursuant to which the placing agent has agreed to procure purchasers to acquire, and Upper Nice has agreed to sell, up to 72,000,000 existing shares of GDC at the placing price of HK\$2.7 per share and Upper Nice has also conditionally agreed to subscribe for up to 72,000,000 new shares of GDC at the subscription price of HK\$2.7 per share. The placement and subscription was completed on 16 July 2007 and a total of 72,000,000 new shares were issued by GDC. An estimated gain on the dilution of interests in subsidiaries of approximately HK\$94,145,000 would be recognised by the Group arising from this transaction.
- (b) On 14 August 2007, GDC Holdings Limited (“GDC Holdings”), a wholly owned subsidiary of GDC, entered into a subscription agreement with GDC Technology to subscribe for 53,388,178 new shares of GDC Technology at HK\$2 per new share of GDC Technology for a total consideration of approximately HK\$106.78 million (the “GDC Tech Subscription”). The GDC Tech Subscription is subject to the approval of the independent shareholders of the Company at a special general meeting of the Company and is not yet completed up to the date of this announcement.

Upon completion of the GDC Tech Subscription and assuming GDC Technology would not issue any new shares after 14 August 2007 and before completion of the GDC Tech Subscription, the Group’s effective interest in GDC Technology will increase from approximately 27.77% to 33.36% and it will continue to be a subsidiary of the Company as GDC holds approximately 54.70% of the then issued capital of GDC Technology before the GDC Tech Subscription and approximately 65.73% of the issued capital of GDC Technology upon completion of the GDC Tech Subscription. Details of which were set out in the announcement of the Company dated 16 August 2007.

- (c) On 14 August 2007, Grand Phoenix Limited (“Grand Phoenix”), a wholly owned subsidiary of the Company, entered into an agreement with Shougang Holding, pursuant to which Grand Phoenix has conditionally agreed to acquire 50% of the issued share capital of Jeckman Holdings Limited (“Jeckman Holdings”) and to accept an assignment of a loan of HK\$22.8 million to Jeckman Holdings for an aggregate consideration of HK\$52 million (the “Jeckman Acquisition”). The Jeckman Acquisition is subject to the approval of the independent shareholders of the Company at a special general meeting of the Company and is not yet completed up to the date of this announcement.

The sole asset of Jeckman Holdings is 60% equity interest in South China Leasing. Upon completion of the Jeckman Acquisition, the Group’s effective interest in South China Leasing will increase from 50% to 80% and the results of South China Leasing will be consolidated by the Group thereafter. Details of the Jeckman Acquisition were set out in the announcement of the Company dated 16 August 2007.

- (d) On 14 August 2007, GDC Holdings entered into an agreement (the “Agreement”) with Shougang Holding for the acquisition of 100% interest in the issued share capital of Shougang GDC Media Holding Limited (“Shougang GDC Media”) for a consideration of HK\$42 million. The consideration was paid as to HK\$41.5 million as deposit within one month from the date of the Agreement and as to HK\$0.5 million at the completion date (the “Shougang GDC Media Acquisition”). The Shougang GDC Media Acquisition is subject to the approval of the independent shareholders of the Company at a special general meeting of the Company and is not yet completed up to the date of this announcement.

The sole asset of Shougang GDC Media is its 49% interest in 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), a sino-foreign joint venture incorporated in the PRC (“PRC Media JV”). PRC Media JV is principally engaged in the deployment of digital cinema network and related businesses in the PRC. Shougang Holding undertakes that the deposit of HK\$41.5 million received would be injected by Shougang Holding into Shougang GDC Media as a shareholder’s loan and such shareholder’s loan would be assigned to GDC Holdings upon completion of the Shougang GDC Media Acquisition at nil consideration. Details of which were set out in the announcement of the Company dated 16 August 2007.

- (e) On 20 August 2007, GDC proposed to grant 38,070,000 share options of GDC to eligible participants under GDC’s share option scheme (the “GDC Options”). As at 20 August 2007, the Group’s shareholding interest in GDC is 50.76%. After the grant of the GDC Options, any exercise of the GDC Options and other outstanding options of GDC that dilute the Group’s shareholding interest in GDC to less than 50%, will result in GDC becoming an associate of the Company. The Group will equity account for its results thereafter. Details of this grant of the GDC Options were set out in the announcement of the Company dated 22 August 2007. The grant of the GDC Options is not yet completed up to the date of this announcement.

24. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the condensed consolidated balance sheet on pages 3 and 4 and in Notes 14 and 16, the Group also entered into the following transactions with related parties during the period:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Subsidiaries of Shougang Holding:		
Rental expenses charged by Winluck Properties Limited	808	692
Interest expense charged by Shougang (Hong Kong) Finance Limited	109	907
Associate:		
Rental income received from South China Leasing	855	—
Interest expense paid to South China Leasing in respect of finance lease obligations	38	—
Shareholders:		
Consultancy expenses charged by Shougang Holding	480	480
Interest expenses charged by Mr. Anthony Francis Neoh	—	1,159
Associates of Shougang Holding:		
Management fee charged by Shougang Concord International Enterprises Company Limited ("Shougang International")	570	300
Rental income received from Gold Regal Limited	<u>71</u>	<u>—</u>

At 30 June 2007, the net book value of computer equipment included an amount of approximately HK\$1,571,000 (31 December 2006: HK\$1,094,000) in respect of assets held under finance leases with South China Leasing, an associate of the Group.

At 30 June 2007, the Group's held-for-trading investments included listed securities of 13,870,000 shares (31 December 2006: 13,870,000 shares) of Shougang Concord Century Holdings Limited ("Shougang Century") and 230,000 shares (31 December 2006: 586,000 shares) of Shougang International. Shougang Century and Shougang International are associates of Shougang Holding.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Short-term benefits	3,175	2,978
Share-based payments	12,306	–
	<u>15,481</u>	<u>2,978</u>

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

During the period, 77,298,000 share options with an exercise price of HK\$0.41 per share were granted to the Directors (30 June 2006: Nil).

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The revenue from continuing operations of the Group for the six months ended 30 June 2007 was approximately HK\$48,857,000, when compared with that of approximately HK\$31,226,000 for the corresponding period in the year 2006, represented an increase of approximately 56%. The increase is mainly attributable to the increase in revenue from digital content distribution and exhibitions division, and CG creation and films and television drama production division.

During the six months ended 30 June 2007, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment and the relevant technical service income, amounted to approximately HK\$13,596,000, increased for approximately 179% comparing with that for the corresponding period in the year 2006. This increase was mainly due to many orders for new products in compliance with the new industrial technical standard, which was just coming out in the fourth quarter of 2006, were received during this period. The Group's revenue from CG creation and films and television drama production division amounted to approximately HK\$27,094,000, increase of approximately 38% comparing with that for the corresponding period in the year 2006, a result of increase in both works from new clients and repeated orders from existing clients of CG creation and production.

Cost of sales from continuing operations for the six months ended 30 June 2007 amounted to approximately HK\$22,228,000, increased by 16% comparing with that of approximately HK\$19,155,000 for the corresponding period in the year 2006.

The Group made a gross profit from continuing operations of approximately HK\$26,629,000 for the six months ended 30 June 2007, representing a gross profit margin of approximately 55%. Comparing with that gross profit margin of approximately 29% for the corresponding period in the year 2006, the improvement was mainly attributable to higher margin on sales of new products of digital cinema equipment and increase in efficiency in CG creation and films and television drama production division.

Other income from continuing operations for the six months ended 30 June 2007 amounted to approximately HK\$12,278,000 (2006: HK\$12,176,000) mainly represented the waiving of certain interest payable on other loans and rental payable of approximately HK\$4,156,000 and HK\$3,228,000, respectively, upon entering into settlement agreements with relevant parties, and interest income of approximately HK\$4,189,000 earned during this period.

Administrative expenses from continuing operations for the six months ended 30 June 2007 amounted to approximately HK\$53,015,000 (2006: HK\$27,688,000), representing an increase of approximately 91%. The increase was mainly due to recognition of equity-settled share-based payments of approximately HK\$22,874,000 for the share options granted during this period. Adjusted for this non-cash expense, the administrative expenses from continuing operations for this period increased by approximately 9%.

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

Gain on disposal of interest in a jointly controlled entity of approximately HK\$61,184,000 for the six months ended 30 June 2007 represented the gain on disposal of the Group's 44% interest in Beijing Dongzhimen for a consideration of RMB170,000,000 (or equivalent to approximately HK\$174,321,000). The disposal was approved by the independent shareholders of the Company in January 2007 and was completed in June 2007 upon receipt of approval from the relevant authorities in the PRC.

During the six months ended 30 June 2007, the Group recorded profit for the period from continuing operations of approximately HK\$332,738,000, as compared to that loss of approximately HK\$12,728,000 for the corresponding period in the year 2006.

During the six months ended 30 June 2006, profit from discontinued operation amounted to approximately HK\$20,352,000. That operation means the finance leasing business the Group operated through South China Leasing. During that period, due to that the Group had induced a new investor to South China Leasing to strengthen its capital structure in order to speed up its development, the Group's interest in South China Leasing, direct and indirect, has been diluted to 50%. South China Leasing was therefore changed from a subsidiary to an associate of the Group. Its net result of operation was disclosed as the discontinued operation. The profit was mainly come from gain on dilution of the Group's interest in South China Leasing.

Overall, the Group recorded profit of approximately HK\$333,488,000 for the six months ended 30 June 2007 attributable to equity holders of the Company, improved significantly as compared with that for the corresponding period in the year 2006 of approximately HK\$8,553,000.

BUSINESS REVIEW

Cultural Recreations Content Provision and Distribution

The significant improvement in this business was mainly come from our digital content distribution and exhibitions division and CG creation and films and television drama production division.

Digital content distribution and exhibitions

During this period, there was a new generation of digital cinema server developed which has adopted the Digital Cinema Initiative (“DCI”) specifications and receiving worldwide customers’ repeat orders to upgrade their digital cinema theatres to this next generation digital cinema server throughout the world. On the other side, recently, almost all major Hollywood feature films were also released digitally to worldwide cinema chains using our newly developed digital cinema servers.

Besides, the Group also completed digitalisation of a high profile cinema multiplex in the PRC, based on its state-of-the-art Digital-Cinema-Total-Solution platform. With the Group’s total solution for digital cinema, the cinema operator can now display the full array of trailers, advertisements and alternative content on both the in-foyer displays and in-theatres screens through a centrally controlled Theater Management System that in turn is remotely monitored by a Network Operation Center. The various display devices can now be programmed from the ticketing system to playback all kind of content in coherency and up-to-the-last minute media can be delivered to all the various display devices connected to a central server. The installed system is so successful that other high-end cinema multiplexes in the PRC and Hong Kong have also begun installing the similar system supplied by the Group.

CG creation and films and television drama production

The Group’s business volume in this division also grew continuously since the Group changed its strategy to enter into the business of subcontracting of CG creation and production. It resulted in a profit from this division for the period, the first ever half-year profit in the history of this division. During this period, while having completed several direct-to-home CG films and television series production projects and a co-production project, the Group continued delivering episodes of direct-to-home CG films and television series to clients. The production of a feature CG film for a client is in progress as well. The quality of the Group’s service has won recognition in the CG industry. Three renowned distributors headquartered in Hollywood have respectively committed to distribute one direct-to-home CG film and two CG television series produced by the Group. Such recognition has generated new orders from all the clients for the Group. At present, in addition to domestic business in the PRC, the Group has expanded its customer base to the United States of America (“USA”), Europe, Japan and Middle East region.

During this period, the Group has also launched one movie in the PRC and Hong Kong and two television series in the PRC.

CG training

The Group's CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. With the best training, highest graduates employment rate and comprehensive training materials, the Group maintains a leading position in the CG professional training domain in the PRC. The Group also developed its infrastructure continuously to maintain its best training environment in the PRC. Through continued improvement in the management system and focused marketing programs, the Group recorded steady revenue growth from CG training division of approximately 10% for the six months ended 30 June 2007, comparing with the corresponding period in the year 2006.

Financial Service Provision

Financial Investment

The Group continue operating the business of financial service through 首方投資管理(深圳)有限公司 ("Capital Steel"). During this period, Capital Steel approaches several financial institutions in the PRC to look for investment opportunities, and simultaneously provide financial and asset management services.

Finance Leasing

By introducing a new investor to South China Leasing in June 2006, South China Leasing was changed from a subsidiary to an associate of the Group. However, the Group would not only continue to operate finance leasing business through South China Leasing but also speed up the development of the business. During this period, South China Leasing's amount of contracts signed grew significantly and its revenue improved to approximately HK\$50.0 million, increased by 207% comparing with that for the corresponding period in the year 2006.

Property Investment and Management

Both rental income and resalable value of the Group's investment properties have been improved comparing with the corresponding period in the year 2006. The Group was receiving stable cash flow from rental income.

During this period, the disposal of the Group's investment in Beijing Dongzhimen was completed. The Group would reinvest the consideration received for developing other businesses, including cultural recreations content provision and distribution, and financial service provision.

OUTLOOK

Cultural Recreations Content Provision and Distribution

Digital content distribution and exhibitions

The Group continues to upgrade its products and market them through participation in international trade exhibitions and high profile demonstration projects. At 2007 ShoWest convention in March 2007, the Group launched an important new digital cinema product – DCI-2000 Digital Cinema Integrated Projection System that answers to the exhibitors' need of a fully integrated projector – server system. DCI-2000 addresses some of the biggest challenges of delivering, installing, operating and maintaining of digital cinema system in cinema multiplexes. The Group also unveiled another new product – SA2100 DSR™ Digital Film

Server which is 33% smaller in size and designed to meet DCI specifications such as Texas Instruments Cinelink™ 2 and Hollywood's approved forensic watermarking features. The SA2100 server is a cost-effective and flexible solution for digital cinema and alternative content sources to be playout in a seamless pipeline; various formats of content such as live interview, on-screen advertisement and feature films can be programmed to playout without the need to re-initialise the server and/or projector for different image formats.

On the other hand, there are a rapidly growing number of cinemas going digital, over 3,000 North American screens have been digitalised, nearly two-thirds of them in the past year. The biggest cinema chains in USA have announced to digitalise their cinemas next year, and a company in Europe signed "Virtual Print Fees" contracts with two major Hollywood studios in July 2007 for its roll-out plan of digital cinemas there. With the increase in demand for digital cinema equipment and the successful development of DSR™ range of products, the Group expects there will be further improvement of business in this division for the remaining part of the year 2007 and in the future.

In addition, the Group's cooperation with China Film Group Corporation, whereby to install not less than 2,000 units of digital cinema integrated projection system in the next two years, has started, the Group started to install digital cinema equipment in July 2007 and is expected to install 700 units by end of the year 2007 and the remaining 1,300 units will be installed not later than mid of the year 2008. Besides, as announced by the Company on 16 August 2007, the Group take a further step by participating in the operation of the joint venture that to be formed with China Film Group Corporation for this deployment of digital cinema network and related business in the PRC. The cooperation will highly accelerate the digitalisation of the film distribution and exhibitions industry in the PRC and at the same time, lay a solid foundation for commencing related businesses of the Group, thus enable the Group to become the technology supplier of digital cinema in the PRC as well as the pioneer in related businesses on top of its basis as a provider of digital cinema equipment worldwide.

Furthermore, as announced by the Company on 16 August 2007, the Group would increase its investment in GDC Technology. With this additional funding, GDC Technology can expedite the rolling out of its worldwide business plan and enhance its research and development activities.

CG creation and films and television drama production

Based on the CG orders secured up to date of this announcement, the Group expect that its revenue from this division for the whole year 2007 will have substantial growth comparing with that for the year 2006. This division is expected to have a profit for the year 2007 as well. Considering the value of CG orders under discussion and the clients' trust and dependency on the Group and the fact that the Group's reputation in the CG industry are being enhanced, it is expected that the high growth rate of revenue will be maintained in the year 2008.

Various levels of the PRC government have been continuously recognising the Group as the leader in the CG industry in the PRC and have provided the Group with various forms of support, including supporting the Group to build a new building as its headquarters.

The CG industry certainly is a rapidly growing market both domestically and internationally, in order to maintain the Group's leadership position in the PRC and seize the market opportunities, the Group will continuously improve its market share, production efficiency and creative ability. Besides, the Group is also actively studying the feasibility of establishment of a new CG studio, preliminary discussions with various parties, including local government for the potential new studio, are in progress.

On the other hand, the Group will also focus at producing television series to gain relatively reliable return. At present, three television series under production are nearly completed and it is expected that they can start to broadcast in the second half of 2007.

CG training

With the view of great success in the CG creation and production, attracting more students and raising market demand for graduates, the Group will design new courses emphasising practical skills and including more case studies to in line with the market needs and enhance the production capability of the students. Besides, the Group's training centre in Shanghai and Shenzhen has already certified by the local government to be a vocational training centre, and the Group is considering the establishment of its third training centre, this will strengthen the training brand of the Group in the PRC. To conclude, the Group will further expand its training network throughout the PRC with Shanghai, Shenzhen and its new training centre as the core centers. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network.

Financial Service Provision

Financial Investment

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

Finance Leasing

With the expected blooming economy development in the PRC, the Group expect that the finance leasing business in the PRC will further expand and this will bring ample business opportunities to South China Leasing. As announced by the Company on 16 August 2007, the acquisition of another 30% effective interest in South China Leasing, the Group can increase its participation in the PRC financial leasing business and is beneficial to the Group.

Property Investment and Management

The Directors expect investment properties in Hong Kong and the PRC will continue to contributable stable cash return to the Group in the foreseeable future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK\$319.1 million as at 30 June 2007 (31 December 2006: HK\$34.7 million) and pledged bank deposit of approximately HK\$8.9 million as at 30 June 2007 (31 December 2006: HK\$1.0 million) which were mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The increase was mainly from net proceeds received from the issue of shares by GDC of approximately HK\$279.3 million in total during the six months ended 30 June 2007, and proceed received from disposal of interests in GDC and GDC Technology, and Beijing Dongzhimen of approximately HK\$68.4 million and HK\$56.8 million, respectively, proceeds from exercise of share options of a subsidiary of approximately HK\$14.7 million, netting off with the repayment of borrowings of approximately HK\$43.5 million and repayment to a fellow subsidiary of approximately HK\$40.0 million during the period.

The Group's borrowings amounted to approximately HK\$87.4 million as at 30 June 2007, of which approximately HK\$29.2 million were repayable within twelve months from 30 June 2007 and approximately HK\$58.2 million were repayable after twelve months from 30 June 2007. All loans bear interest at market rates and are wholly repayable within five years.

As at 30 June 2007, gearing ratio (calculated as borrowings divided by equity attributable to equity holders of the Company) was approximately 16% (31 December 2006: 74%) and current ratio was approximately 6.4 (31 December 2006: 1.8) based on current assets of approximately HK\$557.9 million and current liabilities of approximately HK\$86.6 million. The Group's leverage enhanced significantly was mainly attributable to addition funding as mentioned above during the six months ended 30 June 2007.

CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK\$552.7 million as at 30 June 2007 (31 December 2006: HK\$212.0 million). The increase was mainly due to the profit for the six months ended 30 June 2007 attributable to equity holders of the Company of approximately HK\$333.5 million, recognition of equity-settled share-based payments for the share options granted by the Company of approximately HK\$14.9 million and proceeds from exercise of share options of approximately HK\$4.2 million, netting off with release of translation reserve upon disposal of interest in a jointly controlled entity of approximately HK\$12.4 million.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the disposal and dilution of interests in GDC, GDC Technology and Beijing Dongzhimen as mentioned above and in Notes 5 and 6 and the subscription of new shares in GDC as mentioned in Note 13, the Group had no material acquisitions, disposals and investment during the six months ended 30 June 2007.

CHARGE ON ASSETS

As at 30 June 2007, the Group's investment properties and leasehold land and building with an aggregate carrying value of approximately HK\$141.6 million and a bank deposit of approximately HK\$1 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK\$84.4 million. Besides, the Group also pledged a deposit amounted to approximately HK\$7.9 million to a bank to secure a facility granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The normal operations and investments of the Group are mainly in Hong Kong and the PRC, with revenue and expenditure denominated in United States dollars, Renminbi and Hong Kong dollars. Considering that the Group will have sufficient foreign exchange currencies to meet its foreign exchange requirement, the Directors believe that the Group does not have significant foreign exchange problems. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 30 June 2007, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in Note 22 about litigation proceeding, the Group had no significant contingent liabilities as at 30 June 2007.

EMPLOYEES

As at 30 June 2007, the Group employed 428 (31 December 2006: 383) full time employees (excluding those under the payroll of the associates and the jointly controlled entity of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group. Remuneration packages are reviewed either annually or by special increment.

During the six months ended 30 June 2007, the Company and its subsidiaries has not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

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 period under review.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 June 2007, except for the following deviations:—

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors of the Company is appointed for a specific term. However, Non-executive Directors of the Company (except for the Chairman) are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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

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

- Under the second part of code provision B.1.1 of the Code, a majority of the members of the remuneration committee should be independent non-executive directors.

Subsequent to the re-designation of Mr. Liu Wei from an Independent Non-executive Director to a Non-executive Director on 20 December 2006, the Company was left with two Independent Non-executive Directors, which only constituted half of the members of the Remuneration Committee. However, the Company has appointed Mr. Yip Kin Man, Raymond as an Independent Non-executive Director as well as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company on 19 January 2007. Thereafter, the Independent Non-executive Directors of the Company constitute the majority of the member of the Remuneration Committee.

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

The Chairman of the Board had not attended the annual general meeting of the Company held on 6 June 2007 (the “Meeting”) as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

APPRECIATION

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

By order of the Board

Cao Zhong

Vice Chairman and Managing Director

Hong Kong, 21 September 2007

As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Vice Chairman and Managing Director), Mr. Chen Zheng (Managing Director of Operations), Mr. Wang Tian (Deputy Managing Director), Mr. Yuan Wenxin (Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Tam King Ching, Kenny (Independent Non-executive Director), Ms. Zhou Jianhong (Independent Non-executive Director) and Mr. Yip Kin Man, Raymond (Independent Non-executive Director).

* *For identification purpose only*