首長四方（集團）有限公司*

# SHOUGANG CONCORD GRAND (GROUP) LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 730)

# FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The board of directors (the "Board") of Shougang Concord Grand (Group) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 with comparative figures for the year ended 31 December 2008. These final results have been reviewed by the Audit Committee of the Company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2009*

| | *NOTES* | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|---|
| Revenue | 3 | **494,541** | 308,181 |
| Cost of sales | | **(358,142)** | (262,550) |
| Gross profit | | **136,399** | 45,631 |
| Interest income from entrusted loan receivables | | **5,686** | 3,674 |
| Other income | 5 | **26,967** | 12,035 |
| Distribution costs and selling expenses | | **(12,674)** | (14,240) |
| Administrative expenses | | **(118,286)** | (128,233) |
| Increase (decrease) in fair value of investment properties | | **24,961** | (15,960) |
| Changes in fair value of held-for-trading investments | | **10,436** | (30,011) |
| Finance costs | 6 | **(3,639)** | (6,046) |
| Share of loss of associates | | **(287)** | (857) |
| Other expense | | **–** | (22,202) |

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Discount on acquisition of additional interest in a subsidiary | 7 | **2,154** | – |
| Loss on dilution of interests in a subsidiary | 8 | **(165)** | – |
| Profit (loss) before tax | | **71,552** | (156,209) |
| Income tax expense | 9 | **(13,013)** | (1,540) |
| Profit (loss) for the year | 10 | **58,539** | (157,749) |
| Other comprehensive income: | | | |
| Exchange differences on translation of foreign operations | | **(55)** | 34,468 |
| Total comprehensive income (expense) for the year | | **58,484** | (123,281) |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **38,696** | (119,446) |
| Minority interests | | **19,843** | (38,303) |
| | | **58,539** | (157,749) |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **38,677** | (96,095) |
| Minority interests | | **19,807** | (27,186) |
| | | **58,484** | (123,281) |
| Earnings (loss) per share | 11 | | |
| Basic and diluted | | **HK3.36 cents** | (HK10.38 cents) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2009*

| | *NOTES* | **2009** **HK$'000** | 2008 *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **144,696** | 60,510 |
| Prepaid lease payments | 13 | **5,799** | 7,512 |
| Investment properties | 14 | **152,450** | 125,200 |
| Goodwill | 15 | **52,935** | 52,935 |
| Intangible asset | 16 | **–** | 244,111 |
| Interests in associates | 17 | **21,569** | 21,856 |
| Other receivables | 19 | **20,657** | – |
| Advances | 20 | **–** | 126,547 |
| Finance lease receivables | 21 | **429,347** | 827,138 |
| Entrusted loan receivables | 22 | **227** | 25,499 |
| Restricted bank deposits | | **56,958** | 66,069 |
| Pledged bank deposit | | **1,956** | 665 |
| Available-for-sale investments | 28 | **37,477** | – |
| | | **924,071** | 1,558,042 |
| **Current assets** | | | |
| Inventories | 23 | **34,947** | 21,904 |
| Production work in progress | 24 | **–** | 3,875 |
| Amounts due from customers for contract work | 25 | **5,795** | 16,935 |
| Finance lease receivables | 21 | **464,519** | 463,170 |
| Entrusted loan receivables | 22 | **25,873** | 26,879 |
| Trade receivables | 26 | **41,477** | 20,524 |
| Prepayments, deposits and other receivables | | **93,746** | 22,957 |
| Prepaid lease payments | 13 | **125** | 156 |
| Convertible loan receivable | 18 | **119,255** | – |
| Held-for-trading investments | 27 | **25,420** | 85,668 |
| Pledged bank deposit | | **–** | 2,808 |
| Bank balances and cash | | **372,847** | 195,381 |
| | | **1,184,004** | 860,257 |

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 25 | **366** | 1,763 |
| Trade payables | 29 | **32,969** | 8,117 |
| Other payables and accruals | | **58,316** | 53,492 |
| Income received in advance | | **43,427** | 38,108 |
| Rental and management fee deposits received | | **1,248** | 1,189 |
| Amount due to an associate | | **20,874** | – |
| Tax liabilities | | **19,526** | 9,506 |
| Security deposits received | | **50,168** | – |
| Secured bank borrowings – due within one year | 30 | **539,326** | 427,048 |
| | | **766,220** | 539,223 |
| **Net current assets** | | **417,784** | 321,034 |
| **Total assets less current liabilities** | | **1,341,855** | 1,879,076 |
| **Capital and reserves** | | | |
| Share capital | 31 | **11,514** | 11,514 |
| Retained earnings | | **438,708** | 382,689 |
| Other reserves | | **158,773** | 157,441 |
| Equity attributable to owners of the Company | | **608,995** | 551,644 |
| Share options reserve of subsidiaries | | **33,120** | 54,603 |
| Minority interests | | **255,257** | 264,927 |
| **Total equity** | | **897,372** | 871,174 |
| **Non-current liabilities** | | | |
| Income received in advance | | **7,754** | 16,393 |
| Secured bank borrowings – due after one year | 30 | **425,053** | 930,248 |
| Security deposits received | | **10,000** | 60,168 |
| Deferred tax liabilities | | **1,676** | 1,093 |
| | | **444,483** | 1,007,902 |
| **Total equity and liabilities** | | **1,341,855** | 1,879,076 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2009*

| | Share capital *HK$'000* | Share premium *HK$'000* | Capital contribution reserve *HK$'000* | Contributed surplus reserve *HK$'000* | Translation reserve *HK$'000* | Share options reserve *HK$'000* | Statutory reserve *HK$'000* *(Note)* | Special reserve *HK$'000* | Retained earnings *HK$'000* | Attributable to owners of the Company *HK$'000* | Share options reserve of a subsidiary *HK$'000* | Minority interests *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 11,504 | 425,259 | 445 | 2,135 | 17,502 | 12,794 | – | (23,496) | 189,671 | 635,814 | 55,249 | 277,293 | 968,356 |
| Exchange differences on translation of foreign operations | – | – | – | – | 23,351 | – | – | – | – | 23,351 | – | 11,117 | 34,468 |
| Loss for the year | – | – | – | – | – | – | – | – | (119,446) | (119,446) | – | (38,303) | (157,749) |
| Total comprehensive income (expense) for the year | – | – | – | – | 23,351 | – | – | – | (119,446) | (96,095) | – | (27,186) | (123,281) |
| Recognition of share-based payments | – | – | – | – | – | 10,869 | – | – | – | 10,869 | – | – | 10,869 |
| Exercise of share options | 10 | 559 | – | – | – | (159) | – | – | – | 410 | – | – | 410 |
| Reduction of share premium | – | (425,259) | – | 425,259 | – | – | – | – | – | – | – | – | – |
| Elimination of accumulated losses | – | – | – | (311,818) | – | – | – | – | 311,818 | – | – | – | – |
| Cancellation of share options granted by subsidiaries | – | – | – | – | – | – | – | – | 646 | 646 | (646) | – | – |
| Capital contribution from a minority shareholder | – | – | – | – | – | – | – | – | – | – | – | 14,820 | 14,820 |
| At 31 December 2008 and 1 January 2009 | 11,514 | 559 | 445 | 115,576 | 40,853 | 23,504 | – | (23,496) | 382,689 | 551,644 | 54,603 | 264,927 | 871,174 |
| Exchange differences on translation of foreign operations | – | – | – | – | (19) | – | – | – | – | (19) | – | (36) | (55) |
| Profit for the year | – | – | – | – | – | – | – | – | 38,696 | 38,696 | – | 19,843 | 58,539 |
| Total comprehensive (expense) income for the year | – | – | – | – | (19) | – | – | – | 38,696 | 38,677 | – | 19,807 | 58,484 |
| Exercise of share option of a subsidiary | – | – | – | – | – | – | – | – | – | – | (6) | 236 | 230 |
| Transfer to statutory reserve | – | – | – | – | – | – | 2,879 | – | (5,682) | (2,803) | – | 2,803 | – |
| Lapse/cancellation of share options | – | – | – | – | – | (1,528) | – | – | 1,528 | – | – | – | – |
| Cancellation of share options granted by subsidiaries | – | – | – | – | – | – | – | – | 21,477 | 21,477 | (21,477) | – | – |
| Capital contribution from a minority shareholder | – | – | – | – | – | – | – | – | – | – | – | 5,816 | 5,816 |
| Acquisition of additional interest in a subsidiary | – | – | – | – | – | – | – | – | – | – | – | (38,332) | (38,332) |
| At 31 December 2009 | 11,514 | 559 | 445 | 115,576 | 40,834 | 21,976 | 2,879 | (23,496) | 438,708 | 608,995 | 33,120 | 255,257 | 897,372 |

*Note:*

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2009*

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| OPERATING ACTIVITIES | | |
| Profit (loss) before tax | **71,552** | (156,209) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **8,328** | 7,857 |
| Allowance for inventories | **6,368** | 1,031 |
| Allowance for production work in progress | **4,811** | – |
| Interest expenses (included in finance costs and cost of sales) | **73,404** | 112,495 |
| Allowance for bad and doubtful debts, net | **3,309** | 6,386 |
| Amortisation of intangible asset | **633** | 28,491 |
| Share of loss of associates | **287** | 857 |
| Loss on dilution of interest in a subsidiary | **165** | – |
| Amortisation of prepaid lease payments | **148** | 161 |
| Loss on disposal of property, plant and equipment | **21** | 50 |
| Decrease (increase) in fair value of investment properties | **(24,961)** | 15,960 |
| Changes in fair value of held-for-trading investments | **(10,436)** | 30,011 |
| Interest income | **(17,335)** | (5,190) |
| Interest income from entrusted loan receivables | **(5,686)** | (3,674) |
| Gain on disposal of intangible asset | **(2,543)** | (104) |
| Discount on acquisition of additional interest in a subsidiary | **(2,154)** | – |
| Dividend income from held-for-trading investments | **(91)** | (3,118) |
| Share-based payments expenses | **–** | 10,869 |
| Impairment loss in respect of goodwill | **–** | 10,397 |
| Operating cash flows before movements in working capital | **105,820** | 56,270 |
| (Increase) decrease in inventories | **(19,411)** | 4,043 |
| (Increase) decrease in production work in progress | **(936)** | 7,965 |
| Decrease (increase) in amounts due from customers for contract work | **13,719** | (13,549) |
| Decrease in finance lease receivables | **396,442** | 170,090 |
| Increase in trade receivables | **(24,271)** | (7,314) |
| (Increase) decrease in prepayments, deposits and other receivables | **(87,689)** | 20,985 |
| Decrease (increase) in held-for-trading investments | **70,684** | (85,275) |
| Increase in amounts due to customers for contract work | **1,182** | 338 |
| Increase in trade payables | **24,852** | 2,971 |
| Increase in other payables and accruals | **4,823** | 7,707 |
| Increase in rental and management fee deposits received | **59** | 145 |

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Decrease) increase in income received in advance | **(3,320)** | 8,172 |
| Decrease in security deposits received | **–** | (17,954) |
| Cash generated from operations | **481,954** | 154,594 |
| Dividend received from held-for-trading investments | **91** | 3,118 |
| Income tax paid | **(2,410)** | (848) |
| Interest paid | **(73,404)** | (112,495) |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | **406,231** | 44,369 |
| INVESTING ACTIVITIES | | |
| Proceeds from disposal of intangible asset, net of transaction costs | **249,148** | 1,250 |
| Decrease (increase) in entrusted loan receivables | **20,592** | (52,378) |
| Decrease in restricted bank deposits | **9,111** | 10,976 |
| Interest received | **10,542** | 5,190 |
| Decrease in pledged bank deposits | **1,517** | 5,379 |
| Proceeds from disposal of property, plant and equipment | **340** | – |
| Purchases of property, plant and equipment | **(98,750)** | (20,670) |
| Investment in a convertible note receivable | **(45,454)** | – |
| Acquisition of additional interest in a subsidiary | **(9,949)** | – |
| Investment in available-for-sale investments | **(5,341)** | – |
| Advances to a third party | **–** | (126,547) |
| Acquisition of intangible asset | **–** | (548) |
| Interest received from entrusted loan receivables | **5,686** | 3,674 |
| Investment in an associate | **–** | (21,084) |
| Prepaid lease payments | **–** | (87) |
| Repayment from associates | **–** | 1,053 |
| NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES | **137,442** | (193,792) |
| FINANCING ACTIVITIES | | |
| Repayment of bank loans | **(702,008)** | (440,820) |
| New bank loans raised | **309,091** | 296,773 |
| Advance from an associate | **20,874** | – |
| Capital contribution from a minority shareholder | **5,816** | 14,820 |
| Proceeds from issue of shares of a subsidiary upon exercise of its share options | **65** | – |
| Issue of shares from exercise of share options | **–** | 410 |
| Repayment to related parties | **–** | (455) |

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| NET CASH USED IN FINANCING ACTIVITIES | **(366,162)** | (129,272) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **177,511** | (278,695) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **195,381** | 463,561 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **(45)** | 10,515 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **372,847** | 195,381 |

*NOTES:*

**1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied a number of new and revised Standards, Amendments to Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Except as described below that affecting presentation and disclosure only, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

*HKAS 1 (revised in 2007) "Presentation of Financial Statements"*

HKAS 1 (revised in 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

*HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments and changes in measurement of segment profit or loss, segment assets and segment liabilities (see note 4).

*Improving Disclosures about Financial Instruments*
*(Amendments to HKFRS 7 "Financial Instruments: Disclosures")*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |

| | |
|---|---|
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company (the "Directors") anticipate that the application of the other new and revised Standards, Amendments to Standards or Interpretations will have no material impact on the consolidated financial statements.

## 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.

**Key sources of estimation uncertainty**

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 litigations**

The management of the Group monitor any litigation against the Group closely. Provision for the litigations is made based on the estimates of the possible outcome and liability of the Group. As at 31 December 2009 and 2008, there is no foreseeable financial impact to the Group and no provision for litigations has been made. Details are set out in note 33.

**Estimated impairment of finance lease receivables**

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

As at 31 December 2009, the carrying amount of finance lease receivables is approximately HK$893,866,000 (2008: HK$1,290,308,000).

**Write-down of production work in progress**

The policy for write-down of production work in progress of the Group is based on the evaluation of the certainty in finalising the distribution/license agreements in the potential markets and on management's judgement. Where the net realisable value is less than the cost, a material impairment loss may arise. The Group has made an allowance for production work in progress of HK$4,811,000 for the year ended 31 December 2009 (2008: Nil) as the management estimates the net realisable value for such production work in progress was nil as at 31 December 2009 (2008: HK$3,875,000).

## 3. REVENUE

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

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Sales of goods | **286,932** | 51,984 |
| Finance lease income | **102,929** | 128,467 |
| Revenue from contracts for CG creation and production | **55,558** | 42,542 |
| Training fee | **19,031** | 14,420 |
| Technical service income | **13,526** | 2,652 |
| Property leasing and management fee income | **6,318** | 6,702 |
| Service income from deployment of digital cinema network | **4,703** | – |
| Films and television programme distribution income | **2,177** | 52,832 |
| Receipts from exhibition of digital motion pictures | **1,454** | 3,024 |
| Rental income from equipment leasing | **1,343** | 40 |
| Royalty income from share of box office receipts | **570** | 5,518 |
| | **494,541** | 308,181 |

## 4. SEGMENT INFORMATION

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

In prior years, segment information reported externally was analysed on five operating divisions (i.e. property leasing and building management services, digital content distribution and exhibitions, CG creation and films and television programme production, CG training courses and finance leasing). However, information reported to the CODM, for the purposes of resources allocation and assessment of performance is analysed further on each sub-group level. The Group's operating and reportable segments under HKFRS 8 are therefore classified into eight operating divisions as follows:

- Property leasing and building management services

- Digital content distribution and exhibitions – (i) sales of digital cinema equipments; (ii) provision of technical service; (iii) leasing of digital cinema equipments; and (iv) holding of contractual rights to share box office receipts (note 16)

- Deployment of digital cinema network in Asia (a new division in 2009) – provision of assembly and integration services

- CG creation and production – CG production and exhibition of motion pictures

- CG training courses – provision of CG and animation training

- Films and television programme production – distribution of films and television programme

- Finance leasing – leasing income

- Assets management – asset management services income (No income derived in 2009 and 2008)

As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

*Segment revenue and results*

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

**For the year ended 31 December 2009**

| | Property leasing and building management services | Digital content distribution and exhibitions | Deployment of digital cinema network in Asia | CG creation and production | CG training courses | Films and television programme production | Finance leasing | Assets management | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue from external customers | 6,318 | 302,371 | 4,703 | 57,012 | 19,031 | 2,177 | 102,929 | – | 494,541 |
| Segment result | 30,108 | 46,225 | 845 | 739 | 5,117 | (14,199) | 28,863 | 5,821 | 103,519 |
| Investment income | | | | | | | | | 5,659 |
| Central administration costs | | | | | | | | | (43,971) |
| Changes in fair value of held-for-trading investments | | | | | | | | | 10,436 |
| Finance costs | | | | | | | | | (3,639) |
| Share of loss of an associate | | | | | | | | | (287) |
| Loss on dilution of interest in a subsidiary | | | | | | | | | (165) |
| Profit before tax | | | | | | | | | 71,552 |

For the year ended 31 December 2008

| | Property leasing and building management services HK$'000 | Digital content distribution and exhibitions HK$'000 | CG creation and production HK$'000 | CG training courses HK$'000 | Films and television programme production HK$'000 | Finance leasing HK$'000 | Assets management HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Segment revenue from external customers | 6,702 | 60,194 | 45,566 | 14,420 | 52,832 | 128,467 | – | 308,181 |
| Segment result | (10,883) | (77,108) | 5,121 | 2,510 | (4,346) | 20,369 | (7,427) | (71,764) |
| Investment income | | | | | | | | 5,751 |
| Central administration costs | | | | | | | | (53,282) |
| Changes in fair value of held-for-trading investments | | | | | | | | (30,011) |
| Finance costs | | | | | | | | (6,046) |
| Share of loss of an associate | | | | | | | | (857) |
| Loss before tax | | | | | | | | (156,209) |

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment result represents the profit earned or loss incurred by each segment without allocation of investment income, central administration costs, changes in fair value of held-for-trading investments, finance costs, share of loss of an associate and loss on dilution of interest in a subsidiary. This is the measure reported to the CODM of the Company for the purposes of resources allocation and assessment of segment performance.

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

*Segment assets and liabilities*

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

**At 31 December 2009**

| | Property leasing and building management services *HK$'000* | Digital content distribution and exhibitions *HK$'000* | Deployment of digital cinema network in Asia *HK$'000* | CG creation and production *HK$'000* | CG training courses *HK$'000* | Films and television programme production *HK$'000* | Finance leasing *HK$'000* | Assets management *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Segment assets | 157,627 | 172,045 | 26,063 | 192,276 | 22,694 | 4,324 | 1,168,536 | 194,805 | 1,938,370 |
| Interests in associates | | | | | | | | | 21,569 |
| Held-for-trading investments | | | | | | | | | 25,420 |
| Convertible loan receivable | | | | | | | | | 119,255 |
| Corporate assets | | | | | | | | | 3,461 |
| Consolidated total assets | | | | | | | | | 2,108,075 |
| Liabilities | | | | | | | | | |
| Segment liabilities | 2,867 | 85,814 | – | 15,874 | 11,238 | 3,956 | 880,726 | 978 | 1,001,453 |
| Amount due to an associate | | | | | | | | | 20,874 |
| Tax liabilities | | | | | | | | | 19,526 |
| Secured bank borrowings | | | | | | | | | 163,151 |
| Corporate liabilities | | | | | | | | | 5,699 |
| Consolidated total liabilities | | | | | | | | | 1,210,703 |

At 31 December 2008

| | Property leasing and building management services HK$'000 | Digital content distribution and exhibitions HK$'000 | CG creation and production HK$'000 | CG training courses HK$'000 | Firms and television programme production HK$'000 | Finance leasing HK$'000 | Assets management HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Segment assets | 146,225 | 374,957 | 23,883 | 4,267 | 27,746 | 1,577,527 | 144,307 | 2,298,912 |
| Interests in associates | | | | | | | | 21,856 |
| Held-for-trading investments | | | | | | | | 85,668 |
| Corporate assets | | | | | | | | 11,863 |
| Consolidated total assets | | | | | | | | 2,418,299 |
| Liabilities | | | | | | | | |
| Segment liabilities | 3,194 | 32,253 | 16,921 | 4,864 | 12,048 | 1,278,449 | 6,329 | 1,354,058 |
| Secured bank borrowings | | | | | | | | 171,199 |
| Tax liabilities | | | | | | | | 9,506 |
| Corporate liabilities | | | | | | | | 12,362 |
| Consolidated total liabilities | | | | | | | | 1,547,125 |

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

– all assets are allocated to reportable segments other than interests in associates, convertible loan receivable, held-for-trading investments and corporate assets.

– all liabilities are allocated to reportable segments other than tax liabilities, secured bank borrowings and corporate liabilities.

*Geographical information*

The Group's reportable segments operate in five main geographical areas, namely the PRC, the United States, Europe, Hong Kong and other regions. The head office of the Group, deployment of digital cinema in Asia division, assets management and property leasing and building management services are located in Hong Kong. The Group's CG creation and production centres, CG training facilities, film and television programme production centres and finance leasing are located in the PRC. Customers of the Group's digital content distribution and exhibitions business are mainly located in the PRC, the United States and other regions.

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

| | Revenue from external customers | | Non-current assets *(Note 1)* | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The PRC | **367,444** | 236,822 | **199,414** | 358,524 |
| The United States | **48,288** | 36,434 | **243** | 245 |
| Europe | **17,716** | 12,076 | **–** | – |
| Hong Kong | **20,207** | 3,330 | **153,187** | 128,840 |
| Other regions *(Note 2)* | **40,886** | 19,519 | **3,036** | 2,659 |
| | **494,541** | 308,181 | **355,880** | 490,268 |

*Notes:*

1. Non-current assets exclude available-for-sale investments, interests in associates, other receivables, finance lease receivables, entrusted loan receivable, restricted bank deposits, pledged bank deposit and advances.

2. Other regions include Singapore and Korea which individually account for less than 10% of the Group's revenue from external customers and the Group's non-current assets.

*Information about major customers*

Revenue from a customer contributing over 10% of the total revenue of the Group for the year ended 31 December 2009 is approximately HK$50,899,000 under reportable segment of digital content distribution and exhibitions. For the year ended 31 December 2008, no customer contributed over 10% of the total revenue of the Group.

## 5. OTHER INCOME

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income from loans and receivables | **17,335** | 5,190 |
| Dividend income from held-for-trading investments | **91** | 3,118 |
| Gain on disposal of intangible assets *(Note)* | **2,543** | – |
| Imputed interest income derived from deferred consideration of disposal of intangible asset *(note 16)* | **3,127** | – |
| Others | **3,871** | 3,727 |
| | **26,967** | 12,035 |

*Note:* The intangible asset was disposed to China Film Group Corporation ("CFGC"), the majority shareholder of an associate of the Group, details of which are set out in note 16.

## 6. FINANCE COSTS

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings wholly repayable within five years | **1,755** | 5,047 |
| Interest on bank and other borrowings not wholly repayable within five years | **1,884** | 335 |
| Other finance costs | **–** | 664 |
| | **3,639** | 6,046 |

Included in cost of sales is interest on bank borrowings wholly repayable within five years amounting to HK$69,765,000 (2008: HK$106,449,000) under the finance leasing segment.

## 7. DISCOUNT ON ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 20 August 2008, the Group entered into a conditional agreement with the minority shareholder of South China International Leasing Co. Ltd. ("South China Leasing"), a then 80% indirect owned subsidiary of the Company, pursuant to which the minority shareholder agreed to transfer its 20% equity interest in the registered capital of South China Leasing to the Group for a consideration of RMB31,755,150 (equivalent to approximately HK$36,085,000). Details of this acquisition are set out in the circular of the Company dated 3 September 2008.

This acquisition was completed in April 2009 upon receiving the approval by the appropriate authority in the PRC and South China Leasing became an indirect wholly-owned subsidiary of the Company. The advance paid and direct transaction costs incurred in relation to this acquisition of approximately HK$26,229,000 as at 31 December 2008 (note 20) formed part of the consideration thereafter and the Group paid the remaining consideration of approximately HK$9,949,000 to the minority shareholder during the year ended 31 December 2009.

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

## 8. LOSS ON DILUTION OF INTERESTS IN A SUBSIDIARY

The amount for the year ended 31 December 2009 represents loss on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, upon exercise of share options of GDC Technology during the year.

## 9. INCOME TAX EXPENSE

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The income tax expense comprises: | | |
| Current tax: | | |
| Hong Kong | | |
| Provision for the year | **137** | 63 |
| Under(over)provision in prior year | **31** | (431) |
| | **168** | (368) |
| PRC Enterprise Income Tax ("EIT") | | |
| Provision for the year | **12,263** | 4,401 |
| Overprovision in prior year | **(1)** | (2,246) |
| | **12,262** | 2,155 |
| Deferred taxation: | | |
| Current year | **583** | (247) |
| | **13,013** | 1,540 |

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of certain subsidiaries of the Group operating in the PRC was either reduced from 33% to 25% or was increased from 15% to 25% progressively from 1 January 2008 onwards. For the year ended 31 December 2009, the relevant tax rates for the Group's subsidiaries in PRC ranged from 20% to 25% (2008: 18% to 25%).

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

No provision for income tax in Singapore and the United States has been made in the consolidated statement of comprehensive income for both years as the Group had no assessable profit arising in these jurisdictions.

During the year ended 31 December 2008, a PRC subsidiary was granted two years tax exemption for the financial years ended 2007 and 2008, followed by a 50% reduction for the financial years ended 2009, 2010 and 2011. A provision for PRC EIT of approximately HK$2,246,000 made in 2007 was therefore reversed in the consolidated statement of comprehensive income.

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) before tax | **71,552** | (156,209) |
| Tax calculated at PRC EIT rate of 25% | **17,888** | (39,052) |
| Tax effect on share of result of associates | **72** | 214 |
| Tax effect of expenses not deductible for tax purposes | **11,829** | 18,449 |
| Tax effect of income not taxable for tax purposes | **(5,695)** | (920) |
| Under(over)provision in prior year | **30** | (2,677) |
| Tax effect of deferred tax assets not recognised | **14,046** | 15,951 |
| Tax effect of utilisation of deferred tax assets previously not recognised | **(6,979)** | (317) |
| Utilisation of temporary differences arising from unrealised profits resulting from intra-group transactions previously not recognised | **(3,808)** | (423) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(3,841)** | 13,205 |
| Effect of tax exemptions granted to a subsidiary in the PRC | **(7,600)** | (1,618) |
| Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate | **–** | (66) |
| Others | **(2,929)** | (1,206) |
| Income tax expense for the year | **13,013** | 1,540 |

## 10. PROFIT (LOSS) FOR THE YEAR

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit (loss) for the year has been arrived at after charging: | | |
| Staff costs, including Directors' remuneration: | | |
| – Salaries, wages and other benefits | **114,446** | 94,028 |
| – Retirement benefit scheme contributions | **3,389** | 2,905 |
| – Share-based payments | **–** | 10,869 |
| Total staff costs | **117,835** | 107,802 |
| Less: amounts included in contracts cost | **(21,095)** | (10,526) |
| | **96,740** | 97,276 |
| Allowance for doubtful debts | **3,536** | 6,386 |
| Allowance for inventories | **6,368** | 1,031 |
| Allowance for production work in progress | **4,811** | – |
| Amortisation of intangible asset (included in cost of sales) | **633** | 28,491 |
| Amortisation of prepaid lease payments | **148** | 161 |
| Auditor's remuneration | **1,416** | 3,433 |
| Cost of inventories recognised as an expense | **180,015** | 35,574 |
| Contract costs recognised as an expense | **49,711** | 28,953 |
| Depreciation | **13,486** | 10,329 |
| Less: amounts included in contracts cost | **(5,158)** | (1,904) |
| government grants | **–** | (568) |
| | **8,328** | 7,857 |
| Impairment loss in respect of goodwill | **–** | 10,397 |
| Loss on disposal of property, plant and equipment | **21** | 50 |
| Research and development costs recognised as an expense | **8,043** | 2,843 |
| and after crediting: | | |
| Gain on disposal of intangible asset | **2,543** | 104 |
| Exchange gain, net | **1,429** | 406 |
| Reversal of allowance for doubtful debts | **227** | – |
| Gross rent from investment properties | **6,318** | 6,702 |
| Less: direct operating expenses from investment properties that generated rental income during the year | **(684)** | (580) |
| | **5,634** | 6,122 |

## 11. EARNINGS (LOSS) PER SHARE

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings (loss)** | | |
| Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the year attributable to owners of the Company) | **38,696** | (119,446) |

| | **2009** | 2008 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share | **1,151,392** | 1,151,206 |

The computation of diluted earnings per share for the year ended 31 December 2009 does not assume the exercise of the Company's share options as the exercise prices of the share options are higher than the average market price of the shares of the Company for the year.

The computation of diluted loss per share for the year ended 31 December 2008 did not assume the exercise of the Company's share options since their exercise would result in a decrease in the loss per share for that year.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Computer equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | |
| At 1 January 2008 | 28,974 | 7,439 | 22,174 | 12,959 | 1,519 | 73,065 |
| Exchange realignment | 1,755 | 1,641 | 1,415 | 543 | 96 | 5,450 |
| Additions | – | 1,825 | 10,134 | 1,343 | 7,368 | 20,670 |
| Disposals | – | (104) | (13,898) | (278) | – | (14,280) |
| At 31 December 2008 | 30,729 | 10,801 | 19,825 | 14,567 | 8,983 | 84,905 |
| Additions | – | 2,938 | 11,862 | 1,473 | 82,477 | 98,750 |
| Disposals | – | – | (3,264) | (53) | – | (3,317) |
| Reclassified to investment properties | (1,043) | – | – | – | – | (1,043) |
| At 31 December 2009 | 29,686 | 13,739 | 28,423 | 15,987 | 91,460 | 179,295 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2008 | 419 | 4,142 | 13,883 | 6,987 | – | 25,431 |
| Exchange realignment | 12 | 1,543 | 1,038 | 272 | – | 2,865 |
| Provided for the year | 694 | 1,572 | 5,593 | 2,470 | – | 10,329 |
| Eliminated on disposals | – | (104) | (13,898) | (228) | – | (14,230) |
| At 31 December 2008 | 1,125 | 7,153 | 6,616 | 9,501 | – | 24,395 |
| Provided for the year | 694 | 2,656 | 7,888 | 2,248 | – | 13,486 |
| Eliminated on disposals | – | – | (2,885) | (47) | – | (2,932) |
| Eliminated on reclassification to investment properties | (350) | – | – | – | – | (350) |
| At 31 December 2009 | 1,469 | 9,809 | 11,619 | 11,702 | – | 34,599 |
| CARRYING VALUES | | | | | | |
| At 31 December 2009 | 28,217 | 3,930 | 16,804 | 4,285 | 91,460 | 144,696 |
| At 31 December 2008 | 29,604 | 3,648 | 13,209 | 5,066 | 8,983 | 60,510 |

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

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

The construction in progress represents a building in the PRC for the Group's own use in the course of construction.

At 31 December 2008, the Group has pledged buildings with a carrying value of approximately HK$29,604,000 to secure bank borrowing of the Group.

The related bank borrowings have been fully repaid during the year ended 31 December 2009.

At 31 December 2009, all of the Group's construction in progress have been pledged to secure banking facility granted to the Group.

## 13. PREPAID LEASE PAYMENTS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| COST | | |
| At 1 January | **8,346** | 7,894 |
| Exchange realignment | **–** | 365 |
| Addition during the year | **–** | 87 |
| Eliminated on reclassification to investment properties *(note 14)* | **(2,100)** | – |
| At 31 December | **6,246** | 8,346 |
| AMORTISATION | | |
| At 1 January | **678** | 518 |
| Exchange realignment | **–** | 4 |
| Charge for the year | **148** | 156 |
| Reclassified to investment properties *(note 14)* | **(504)** | – |
| At 31 December | **322** | 678 |
| CARRYING VALUE | | |
| At 31 December | **5,924** | 7,668 |

The Group's prepaid lease payments comprise:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Long-term leasehold land in Hong Kong | **–** | 1,619 |
| Medium-term leasehold land in the PRC | **5,924** | 6,049 |
| | **5,924** | 7,668 |
| Analysed for reporting purposes as: | | |
| Current | **125** | 156 |
| Non-current | **5,799** | 7,512 |
| | **5,924** | 7,668 |

As at 31 December 2009, all of Group's prepaid lease payments have been pledged to secure banking facilities granted to the Group.

## 14. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1 January 2008 | 141,160 |
| Net decrease in fair value recognised in profit or loss | (15,960) |
| At 31 December 2008 | 125,200 |
| Reclassified from property, plant and equipment *(note 12)* | 693 |
| Reclassified from prepaid lease payment *(note 13)* | 1,596 |
| Net increase in fair value recognised in profit or loss | 24,961 |
| At 31 December 2009 | 152,450 |

*Note:* During the year ended 31 December 2009, property, plant and equipment and prepaid lease payments with a carrying amount of approximately HK$2,289,000 which approximated to its fair value at the date of transfer, were reclassified to investment properties. The property was used by the Group as directors' quarters for the year ended 31 December 2008. During the year ended 31 December 2009, the property was leased to an independent third party and therefore reclassified to investment properties.

The fair value of the Group's investment properties at 31 December 2009 and 2008 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent qualified professional valuer not connected with the Group. AA Property Services Limited is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experiences. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and conditions and where appropriate by capitalisation of rental income from properties.

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

At 31 December, 2009, all of the Group's investment properties are located in Hong Kong and held under long leases with the lease terms of 52 to 126 years. All of the Group's investment properties have been pledged to banks to secure general banking facilities granted to the Group.

## 15. GOODWILL

| | |
|---|---|
| | *HK$'000* |
| COST | |
| At 31 December 2008 and 2009 | 254,789 |
| IMPAIRMENT | |
| At 31 December 2008 and 2009 | 201,854 |
| CARRYING VALUE | |
| At 31 December 2008 and 2009 | 52,935 |

## 16. INTANGIBLE ASSET

| | |
|---|---|
| | *HK$'000* |
| COST | |
| At 1 January 2008 | 221,545 |
| Exchange realignment | 13,834 |
| Acquisition | 38,369 |
| Disposal | (1,250) |
| At 31 December 2008 | 272,498 |
| Disposal | (272,498) |
| At 31 December 2009 | – |
| AMORTISATION | |
| At 1 January 2008 | – |
| Charge for the year | 28,491 |
| Eliminated on disposal | (104) |
| As at 31 December 2008 | 28,387 |
| Charge for the year | 633 |
| Eliminated on disposal | (29,020) |
| At 31 December 2009 | – |
| CARRYING VALUE | |
| At 31 December 2009 | – |
| At 31 December 2008 | 244,111 |

As at 31 December 2008, the intangible asset represented the contractual rights to share a specified percentage of the box office receipts from certain cinemas in the PRC using the digital cinema equipment installed by the Group for exhibition of digital contents. It had finite useful life and was amortised on a straight-line basis over the relevant contract up to 10 years. In 2009, the Group disposed the intangible asset to CFGC for a consideration of RMB223,791,600 (equivalent to approximately HK$254,227,000). The consideration was payable by CFGC in following manner:

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

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

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

The difference between the fair value of consideration of approximately HK$251,100,000, estimated by using the People's Bank of China Renminbi Lending Rate, transaction costs directly attributable to the disposal of approximately HK$5,079,000 and the carrying amount of the intangible assets at the date of disposal is recognised in profit or loss for the year and included in other income. Imputed interest income derived from the deferred consideration of the disposal of approximately HK$3,127,000 is recognised for the year and included in other income.

The disposal was approved by shareholders of the Company at the special general meeting on 17 February 2009. Details of the disposal were set out in the circular of the Company dated 23 January 2009.

## 17. INTERESTS IN ASSOCIATES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of investment in unlisted associates | **22,586** | 22,586 |
| Share of post-acquisition translation difference recognised in other comprehensive income | **1,205** | 1,205 |
| Share of post-acquisition losses | **(1,442)** | (1,155) |
| Less: Impairment loss recognised | **(780)** | (780) |
| | **21,569** | 21,856 |

Details of the Group's principal associates at 31 December 2009 and 2008 are as follows:

| Name of entity | Form of business structure | Place of incorporation/ establishment and operation | Proportion of nominal value of issued share capital /registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|
| Top Pearl International Development Ltd. ("Top Pearl") | Incorporated | BVI/ The PRC | 50% | 50% *(Note 1)* | Property development and became inactive |
| 中影首鋼環球數碼數字影院建設（北京）有限公司 CFGDC Digital Cinema Company Limited ("CFGDC") | Sino-foreign equity joint venture | The PRC/ The PRC | 49% | 40% *(Note 2)* | Deployment of digital cinema network in 2008 and become inactive in 2009 |

*Notes:*

1. In the opinion of the Directors, the investment in Top Pearl of approximately HK$780,000, together with the loan to Top Pearl amounting to HK$31,489,000 are considered to be fully impaired at 31 December 2009 and 2008 as Top Pearl has become inactive.

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

## 18. CONVERTIBLE LOAN RECEIVABLE

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

The transaction was approved by shareholders of the Company at the special general meeting of the Company on 17 February 2009, the advance of approximately HK$68.2 million as at 31 December 2008 formed part of the Loan Receivable thereafter and the Group advanced the remaining approximately HK$45.4 million to the Borrower during the year ended 31 December 2009.

The Conversion Option was granted to the Group pursuant to the Loan Facility Arrangement. Accordingly, the Group assessed the fair value of the Loan Receivable with reference to the prevailing market interest of similar non-convertible loans and appointed Messrs. Jones Lang LaSalle Sallmanns ("Sallmanns"), an independent qualified professional valuer not connected with the Group, to ascertain the fair value of the Conversion Option as at 17 February 2009 and 30 June 2009. The fair value of the Conversion Option as at 31 December 2009 has been estimated by the Directors using the same valuation methodology adopted by Sallmanns and the performance of the Borrower since 1 July 2009. The Group concluded that the principal amount of the Loan Receivable approximates to its fair value at initial recognition and the fair value of the Conversion Option is insignificant at both initial recognition and 31 December 2009.

As at 31 December 2009, the carrying amount of the convertible loan receivable of approximately HK$119.3 million comprises principal amount of RMB100 million (equivalent to approximately HK$113.6 million) and the accrued interest thereon. The convertible loan receivable is stated at amortised cost using the effective interest method at 6% per annum less any identified impairment losses.

Subsequent to the end of the reporting period, the Borrower repaid part of the principal amount of Loan Receivable and the accrued interest thereon amounting to approximately HK$113.6 million. The remaining amount of approximately HK$5.7 million is expected to be settled within one year after the end of reporting period and therefore, the whole amount of approximately HK$119.3 million is classified as a current asset.

## 19. OTHER RECEIVABLES

During the year, a subsidiary of the Company signed VPF agreements and exhibition agreements (collectively referred to as "VPF Arrangement") with distributors and exhibitors of digital contents (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 would provide (i) assembly and integration services in respect of digital cinema equipment and install the equipments in the exhibitors' cinemas as well as (ii) financing to the Third Parties for a portion of the agreed purchase prices of the digital cinema equipments. 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 but subject to a cap of 10% per annum.

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

## 20. ADVANCES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Advances paid for: | | |
| Agreement for a term loan facility and call options *(note 18)* | – | 68,182 |
| Agreements for acquisition of non-performing loans and interests *(note 28)* | – | 32,136 |
| Agreement for acquisition of additional interest in a subsidiary *(note 7)* | – | 26,229 |
| | – | 126,547 |

## 21. FINANCE LEASE RECEIVABLES

| | **Minimum lease receipts** | | **Present value of minimum lease receipts** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Variable-interest rate finance lease receivables comprise: | | | | |
| Within one year | **509,737** | 543,315 | **464,519** | 463,170 |
| In more than one year but not more than two years | **220,935** | 530,174 | **197,595** | 492,351 |
| In more than two years but not more than three years | **210,666** | 209,746 | **200,882** | 193,068 |
| In more than three years but not more than four years | **31,414** | 115,246 | **30,014** | 108,464 |
| In more than four years but not more than five years | **705** | 33,278 | **615** | 32,409 |
| More than five years | **248** | 943 | **241** | 846 |
| | **973,705** | 1,432,702 | **893,866** | 1,290,308 |
| Less: Unearned finance income | **(79,839)** | (142,394) | **N/A** | N/A |
| Present value of minimum lease receipts | **893,866** | 1,290,308 | **893,866** | 1,290,308 |
| Analysed as: | | | | |
| Current finance lease receivables (receivable within 12 months) | | | **464,519** | 463,170 |
| Non-current finance lease receivables (receivable after 12 months) | | | **429,347** | 827,138 |
| | | | **893,866** | 1,290,308 |

## 22. ENTRUSTED LOAN RECEIVABLES

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Entrusted loan receivables comprise: | | |
| Within one year | **25,873** | 26,879 |
| In more than one year, but not more than two years | **227** | 25,272 |
| In more than two years, but not more than three years | **–** | 227 |
| | **26,100** | 52,378 |
| Less: Amounts due within one year shown under current assets | **(25,873)** | (26,879) |
| Amounts due after one year | **227** | 25,499 |

## 23. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials, net of allowance of approximately HK$1,974,000 (2008: approximately HK$650,000) | **7,059** | 6,345 |
| Finished goods, net of allowance of approximately HK$5,984,000 (2008: approximately HK$940,000) | **27,888** | 15,559 |
| | **34,947** | 21,904 |

## 24. PRODUCTION WORK IN PROGRESS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Movie and television series | **–** | 3,875 |

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

The following are details of contracts from CG production in progress at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contract costs incurred plus recognised profits less recognised losses | **49,991** | 28,574 |
| Less: progress billings | **(44,562)** | (13,402) |
| | **5,429** | 15,172 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **5,795** | 16,935 |
| Amounts due to customers for contract work | **(366)** | (1,763) |
| | **5,429** | 15,172 |

## 26. TRADE RECEIVABLES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **51,172** | 26,910 |
| Less: Allowance for doubtful debts | **(9,695)** | (6,386) |
| | **41,477** | 20,524 |

## 27. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2009 and 2008 represented equity securities as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Listed in the PRC | **2,154** | 73,588 |
| Listed in Hong Kong | **23,266** | 12,080 |
| | **25,420** | 85,668 |

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

## 28. AVAILABLE-FOR-SALE INVESTMENTS

| | Notes | 31 December 2009 HK$'000 | 31 December 2008 HK$'000 |
|---|---|---|---|
| Unlisted non-performing loans and interests | (i) | **32,136** | – |
| Unlisted equity interests | (ii) | **5,341** | – |
| | | **37,477** | – |

*Notes:*

(i) On 30 January 2009, the Group entered into two agreements with 中國東方資產管理公司石家莊辦事處 (the "Vendor"), an independent third party pursuant to which the Group acquired two non-performing loans and interests accrued thereon with principal amounts of RMB23 million (equivalent to approximately HK$26.1 million) and RMB30.54 million (equivalent to approximately HK$34.7 million) for considerations of RMB9 million (equivalent to approximately HK$10.2 million) and RMB19 million (equivalent to approximately HK$21.6 million), respectively. The investment is pledged by land and wine in the PRC held by borrower with estimated fair value above the carrying amount of investment. Details of which were set out in the announcement of the Company dated 4 February 2009.

The advance of approximately RMB28 million (equivalent to approximately HK$32.1 million) as at 31 December 2008 (note 20) to the Vendor became the investment costs which were then designated as available-for-sales investments thereafter and the fair value of the investment as at 31 December 2009 is estimated to approximate its cost. Only after such time as the interest-in-suspense is no longer required, interest income will then be subsequently recognised using the effective interest method.

(ii) The investment represents equity interest in private entities established in the PRC.

The investment is measured at cost less impairment at the end of the reporting period because the range of the reasonable fair value estimates is so variable that the Directors are of the opinion that their fair values cannot be measured reliably.

## 29. TRADE PAYABLES

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

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 0 – 90 days | **31,153** | 6,568 |
| 91 – 180 days | **1,816** | 76 |
| Over 180 days | **–** | 1,473 |
| | **32,969** | 8,117 |

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

## 30. SECURED BANK BORROWINGS

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Secured variable-rate bank borrowings | **964,379** | 1,357,296 |
| Carrying amount repayable: | | |
| On demand or within one year | **539,326** | 427,048 |
| More than one year, but not exceeding two years | **174,246** | 568,735 |
| More than two years, but not exceeding three years | **178,307** | 181,320 |
| More than three years, but not exceeding four years | **16,448** | 100,915 |
| More than four years, but not exceeding five years | **4,068** | 33,454 |
| More than five years | **51,984** | 45,824 |
| | **964,379** | 1,357,296 |
| Less: Amounts due within one year shown under current liabilities | **(539,326)** | (427,048) |
| Amounts due after one year | **425,053** | 930,248 |

## 31. SHARE CAPITAL

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Number of shares** | **Nominal value** | Number of shares | Nominal value |
| | | ***HK$'000*** | | *HK$'000* |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised: | | | | |
| At 1 January and 31 December | **2,000,000,000** | **20,000** | 2,000,000,000 | 20,000 |
| Issued and fully paid: | | | | |
| At 1 January | **1,151,392,469** | **11,514** | 1,150,392,469 | 11,504 |
| Exercise of share options *(Note)* | **–** | **–** | 1,000,000 | 10 |
| At 31 December | **1,151,392,469** | **11,514** | 1,151,392,469 | 11,514 |

*Note:* For the year ended 31 December 2008, share option holders exercised their right to subscribe 1,000,000 ordinary shares of the Company at HK$0.41 per share.

## 32. CAPITAL COMMITMENTS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **125,733** | 8,350 |

## 33. 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 relation to an animated television series.

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

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

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 were in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same claim of damages from P&PM and WAMC. Pleadings have not yet been exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006. Award of the arbitrator was published on the Issue of Jurisdiction on 23 March 2006 dismissing the application, and made an order for costs in GDC Entertainment's favour in respect of the application. Since then, there has been no further step taken by the parties. GDC Entertainment has written to the arbitrator seeking directions for the further conduct of the arbitration, including the service of pleadings in the arbitration.

Effective from 1 May 2009, GDC Entertainment has been struck off but can be restored at any time up to ten years after the strike-off date.

## 34. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the following four events were noted:

a) The Borrower repaid part of the principal amount of Loan Receivable and the accrued interest thereon amounting to approximately HK$113.6 million. Details of the Loan Receivable and accrued interest thereon which are classified as convertible loan receivable, are disclosed in note 18.

b) On 16 March 2010, SCG Investment (BVI) Limited ("SCG Investment BVI"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with a purchaser and a guarantor, pursuant to which SCG Investment BVI agreed to sell to the purchaser the entire issued share capital of Grand Award Limited for US$1.00 and to assign the loan to the purchaser for HK$247,920,000 ("the Disposal"). The Disposal is subject to the approval by the shareholders of the Company at a general meeting of the Company and is not yet completed up to the date of this announcement.

The sole asset of Grand Award Limited is its interest in the entire issued share capital of Grand Perfect Investment Limited, an investment holding company incorporated in Hong Kong which in turn holds the entire registered capital of 首方投資管理(深圳)有限公司 ("Capital Steel").

Capital Steel is a wholly foreign-owned enterprise established in the PRC and is mainly engaged in investment holding and development and management of finance and assets investments. Capital Steel holds 90% equity interests in 天津首方投資管理有限公司 and 80% equity interests in 四方源創國際影視文化傳播(北京)有限公司.

Details of the Disposal were set out in the announcement of the Company dated 16 March 2010. The Directors are still estimating the potential impact of the transaction.

c) On 30 March 2010, the Group entered into a sale and purchase agreement with an independent third party (the "Vendor") pursuant to which the Vendor agreed to sell to the Group a 68% interest in 廣東時尚置業有限公司 (the "Target"), a limited liability company established in the PRC for a consideration of RMB56,060,000 (equivalent to approximately HK$63,755,000). The assets held by Target are primarily the contractual right to lease 珠影文化產業園. The Target entered into a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) with 珠江電影製片有限公司 to redevelop 珠影文化產業園. Pursuant to the arrangement, the Target and 珠江電影製片有限公司 will jointly redevelop 珠影文化產業園 and the Target will obtain the leasing right of 珠影文化產業園 for a term up to 31 December 2045 upon completion of the redevelopment work. Details of the transaction are set out in the announcement of the Company on 30 March 2010 (the "Announcement").

The completion of the transaction is subject to fulfilment of conditions as set out in the Announcement. The transaction has not been completed at the date these consolidated financial statements are authorised for issuance.

d) Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, announced on 15 April 2010 that on 7 April 2010, it received an original complaint 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 by X6D Limited, X6D USA Inc. and XpanD, Inc. on 30 March 2010 against, among others, GDC and its subsidiaries namely GDC Technology Limited, GDC Technology (China) Limited and GDC Technology (USA) LLC (collectively, the "Defendants") for copyright infringement, design patent infringement, misrepresentation of origin of goods, misappropriation of trade secrets, unfair competition, breach of contract and tortuous interference with contractual and business relations in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses is not a core business of the Group. GDC is seeking legal advice and in the process of collecting information in relation to the Proceeding. Since the Proceeding is in a preliminary stage, the Directors cannot assess the outcome of the litigation.

## FINAL DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year (2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2009 was approximately HK$494,541,000, when compared with that of approximately HK$308,181,000 for the year 2008, represented an increase of approximately 60%. The increase was mainly attributable to increase in revenue earned by the digital content distribution and exhibitions division, and the computer graphic ("CG") creation and production division by approximately HK$242,177,000 and HK$11,446,000, respectively, netting off with the reduction in finance lease income earned by the finance leasing division and decrease in distribution income earned by the films and television programme production division by approximately HK$25,538,000 and HK$50,655,000 respectively.

Cost of sales for the year ended 31 December 2009 amounted to approximately HK$358,142,000 when compared with that of approximately HK$262,550,000 for the year 2008, represented an increase of approximately 36%. The increase is mainly due to increase in costs of goods sold and CG production costs in line with increase in the respective revenue.

The Group made a gross profit of approximately HK$136,399,000 for the year ended 31 December 2009, representing a gross profit margin of approximately 28%. Comparing with the gross profit margin of approximately 15% for the year 2008, the improvement is mainly due to decrease in amortisation of intangible asset in the amount of cost of sales by approximately HK$27,858,000.

Other income for the year ended 31 December 2009 amounted to approximately HK$26,967,000 (2008: HK$12,035,000), representing an increase of approximately 124%. The increase is mainly due to an increase in interest income by approximately HK$12,145,000, netting off with a decrease in dividend income by approximately HK$3,027,000. The amount of other income for the year includes a gain of approximately HK$2,543,000 on disposal of intangible asset to China Film Group Corporation ("CFGC") upon termination of the cooperation with CFGC for the deployment of digital cinema network in the PRC and the relevant imputed interest income derived from the deferred consideration of approximately HK$3,127,000.

Administrative expenses for the year ended 31 December 2009 amounted to approximately HK$118,286,000 (2008: HK$128,233,000), representing a decrease of approximately 8%. The decrease is mainly due to the absent of equity-settled share-based payments during the year. Administrative expenses for the year ended 31 December 2008 included the recognition of equity-settled share-based payments of approximately HK$10,869,000 for the share options granted.

Other expenses for the year ended 31 December 2008 of approximately HK$22,202,000 represented a one-off payment to CFGC for the acquisition of certain of its film distribution rights in the PRC during that year.

Overall, the Group recorded profit of approximately HK$38,696,000 for the year ended 31 December 2009 attributable to owners of the Company, when compared with that loss of approximately HK$119,446,000 for the year 2008.

## BUSINESS REVIEW AND OUTLOOK

### *Digital content distribution and exhibitions*

For the year ended 31 December 2009, revenue from digital content distribution and exhibitions division reports an approximate four-fold increment to approximately HK$302,371,000, when compared with that for the year 2008. This significant growth is attributed to more digital cinema equipment sold to customers in the United States, the PRC and other Asian territories, such as South Korea. The Group also explores new markets, including Australia, Europe, Japan and Russia, and has successfully received new orders from customers in these regions.

In order to best satisfy the customers' needs and offer an all-round digital cinema solution, the Group incurs more research and development costs to enhance its technologies and sharpen its competitive edge in the digital cinema business. In April 2009, the Group completed the integration of a 3D EQ technology to its digital cinema server, which can provide film distributors with significant savings in millions by adopting Digital Cinema Initiative ("DCI") requirement of a single 3D DCP format for digital cinema distribution. In December 2009, the Group announced a new product, digital cinema Integrated Media Block ("IMB"), with one of the leading digital cinema projector manufacturer that can seamlessly integrated into a brand new generation of projector, DLP Cinema® Series 2 projector. Recently, the Group also demonstrates its fifth generation digital cinema server which is capable of working with the DLP Cinema® Series 2 projector and began shipping in the year 2010.

The Group continued to promote its products through participating in international trade exhibitions and high profile demonstration projects, and develop products that aim at meeting more than the standard DCI specifications. The ultimate goal of the Group is to develop the best multimedia solutions and sell its digital cinema equipment for large scale public playback in cinema multiplexes and museums.

At present, the cinema industry is at the turning point of overwhelmingly adopting digital cinema, a completely digital medium for the distribution and exhibition of feature films. In late September 2009, the major exhibitors in the United States announced that they have secured funding to finance the digitalisation of 14,000 cinema screens. The success of several 3D feature films during this year is also an important driver for speeding up the digitalisation. It is expected that the full conversion into digital cinemas will be completed in the coming 5 years.

To capture potential opportunities, the Group continues to strengthen its production facilities and improve its production quality in Shenzhen and Hong Kong in preparation of mass production of its products. Its facility in Hong Kong also achieves ISO 9001:2000 certification during this year following the Shenzhen production facility.

### *Deployment of digital cinema network in Asia*

In Asia (except the PRC), the Group has reached separate non-exclusive virtual print fee ("VPF") agreements with five out of six major Hollywood studios for digital cinema deployment. 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 arrangement and endeavors to sign up with more in the coming future.

### *CG creation and production*

Despite adverse environment under the global economy downturn, increases in CG production orders make CG creation and production division recording revenue growth by approximately 25% to approximately HK$57,012,000 for the year ended 31 December 2009 when compared with that of the year 2008. During this year, there are seven CG production projects in progress, including films, DVD and television series, with customers coming from North America, Europe and Australia. Four of the projects are completed during the year while the other three are expected to be completed in the first quarter of the year 2010. However, due to change in production schedule of and some adjustments to an individual project, production costs increased accordingly, to deal with this uncertainty, the Group makes some allowance during this year, thus the profit efficiency of this division is lower than that for the year 2008, even though overall it is still profitable.

Out of the seven projects in production, two are co-production projects with large European and American animation content production and distribution companies, in which the Group also has obtained the sole distribution right in the Chinese-speaking region and can share certain profit in the global distribution. These partners actively work with the Group and add "Chinese element" to these global projects.

In addition to nearly concluding production of several series two of successful projects with existing customers, the Group is actively looking for new customers, including world leading entertainment brands, for animated television series and films. Some new projects are under negotiations, one of these has commenced production in January 2010 while another two are in the testing stage.

In addition, by providing technical support and joint distribution with CFGC, the Group released a Belgium 3D animation film "Fly Me to the Moon" in over 300 digital cinema multiplexes across the PRC during the year. The success of distribution of this film in the PRC resulted in continuous cooperation of another film between the parties, and attracting interests from several international companies on production of 3D films, co-production, distribution and other business.

To deal with business growth and increase market share, the Group's subsidiary in Chongqing commences production during the year and completes production of a DVD and a television series with another project in progress. The production centres in Shenzhen and Chongqing both use advanced network and IT technology to establish an integrated operation platform so that employees, facilities and management system at these two locations can interact together. This multi-site CG production increases the Group's ability in the CG business to expand the capacity and price adjustment, allowing the Group to react promptly to changes in the market.

***CG training***

CG training division continued to pursue, as a core component of its strategy, towards professionalism and strengthening of its training materials, it continuously recorded nearly 100% employment of graduates and received more support from the PRC government. This division is able to achieve an "Upstream" result under the financial crisis and records steady growth in revenue and segment result of approximately 32% and 104%, respectively, for the year ended 31 December 2009 when comparing with that for the year 2008.

After upgrading the existing training courses for the knowledge of CG production, on-line and other games, the Group will organise new professional training programmes in other areas, including after effects, virtual reality and case studies for animation, in response to the market needs. Besides, the Group continues to co-operate with prominent high schools in the PRC for organising "Skill and Qualification" training programme to their students in achieving "One Course, Several Certificates", and to train up their practical skills to get ready for work immediately after graduation.

In addition to the Group's training centres in Shanghai, Shenzhen, Wuxi and Chongqing, the Group set up a new direct operation training site in Guangzhou during the year and plans to set up one more site in the North to provide all-round coverage in the PRC. At the same time, the Group will further develop its training network to those areas in the PRC with developed animation industry.

***Films and television programme production***

During the year, the Group operated the business of films and television programme production through 四方源創國際影視文化傳播（北京）有限公司 ("Concord Creation") together with its subsidiaries. In March 2010, the Group has signed an agreement to dispose its entire interests in Concord Creation, details of which are set out in the Group's announcement dated 16 March 2010, as the Group preferred to recoup of capital investment in Concord Creation for the development of other businesses.

### *Finance Leasing*

In 2009, the Group actively responded to the difficulties caused by the financial tsunami and turns the critical conditions into advantages. During the year, the Group strengthened its credit risk management and more stringent cost control, the finance leasing division recorded a growth in the segment result by approximately 42% to HK$28,863,000 million when compared with that of the corresponding period in the year 2008. In addition, the leasing division further improved the current credit procedures to existing clients and new financing lease project to ensure that credit risk will be minimized. Besides, all outstanding finance lease receivables as at 31 December 2009 either had good credit quality according to past payment history or adequate collateral had been held with estimated fair values in excess of the receivables.

In addition, the Group completed the acquisition of the remaining 20% equity interest in the registered capital of the subsidiary operation this division during the year, this enable the Group to increase its participation in this business and seize the opportunities presented in this business in the PRC without the hindrances of the involvement of a minority shareholder.

### *Financial Investment*

During the year, the Group operated the business of financial service through 首方投資管理（深圳）有限公司 (“Capital Steel”). In March 2010, the Group has signed an agreement to dispose its entire interests in Capital Steel, details of which are set out in the Group’s announcement dated 16 March 2010, as the Group preferred to recoup of capital investment in Capital Steel for the development of other businesses.

### *Property Investment and Management*

With the recovery of the economy and property market of Hong Kong, the resalable value of the Group’s investment properties has been improving when compared with the year 2008. However, due to slight lagging of leasing market, property leasing and building management fee income for the year ended 31 December 2009 decreased slightly by 6%. The Directors expect investment properties in Hong Kong will continue to contribute stable cash return to the Group in the foreseeable future.

## Liquidity and Financial Resources

As at 31 December 2009, the Group had bank balances and cash of approximately HK$372.8 million (2008: HK$195.4 million), restricted bank deposits of approximately HK$57.0 (2008: HK$66.1 million) and pledged bank deposit of approximately HK$2.0 million (2008: HK$3.5 million) which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase was mainly from net cash inflow from operating activities of approximately HK$406.2 million, net proceeds from disposal of intangible asset of approximately HK$249.1 million, increase in entrusted loan receivables of approximately HK$20.6 million and advance from an associate of approximately HK$20.9 million, netting off with purchase of property, plant and equipment of approximately HK$98.8 million, investment in a convertible loan receivable of approximately HK$45.5 million and net repayment of borrowings of approximately HK$392.9 million.

As at 31 December 2009, the Group's borrowings amounted to approximately HK$964.4 million, of which approximately HK$539.3 million were repayable within twelve months from 31 December 2009 and approximately HK$425.1 million were repayable after twelve months from 31 December 2009. All loans bore interest at market rates.

As at 31 December 2009, gearing ratio (calculated as borrowings net of bank balances and cash, restricted bank deposits and pledged bank deposit divided by total equity) was approximately 59% (2008: 125%). As at 31 December 2009, the Group had current ratio of approximately 155% (2008: 160%) based on current assets of approximately HK$1,184.0 million and current liabilities of approximately HK$766.2 million. The Group's leverage improved was mainly attributable to net cash inflow from operating activities.

## Capital Structure

The equity attributable to owners of the Company amounted to approximately HK$609.0 million as at 31 December 2009 (2008: HK$551.6 million). The increase was mainly due to profit for the year ended 31 December 2009 attributable to owners of the Company of approximately HK$38.7 million and transfer of approximately HK$21.5 million from share options reserve of a subsidiary upon cancellation of those share options during this year.

## Material Acquisition, Disposals and Significant Investment

Other than acquisition of additional interest in a subsidiary and dilution of interests in a subsidiary as disclosed in note 7 and 8 respectively, the Group had no material acquisitions, disposals and significant investment during the year ended 31 December 2009.

**Charge on assets**

As at 31 December 2009, the Group has the following charge on assets:

(i) The Group's investment properties with an aggregate carrying value of approximately HK$152.5 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$153.0 million.

(ii) The Group's construction in progress and prepaid lease payments with an aggregate carrying value of approximately HK$97.4 million are pledged to bank to secure for bank borrowing with outstanding amount of approximately HK$10.2 million and undrawn borrowing facilities of approximately HK$160.2 million.

(iii) The Group's finance lease receivables with a carrying value of approximately HK$827.9 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$801.2 million.

(iv) There were bank deposits of approximately HK$57.0 million restricted for the repayment of bank borrowings, which will be released upon full settlement of the relevant bank borrowings.

(v) The Group pledged deposit amounted to approximately HK$2.0 million to a bank to secure a construction agreement entered into with independent third parties. The pledged bank deposit will be released upon the settlement of the agreement.

**Foreign Exchange Exposure**

The normal operations and investments of the Group are mainly in Hong Kong and the PRC, with revenue and expenditure denominated in Hong Kong dollars, Renminbi and United States dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2009, the Group has no significant exposure under foreign exchange.

**Contingent liabilities**

Saved as disclosed in note 33 about litigation proceeding, the Group had no significant contingent liabilities as at 31 December 2009.

### Employees

As at 31 December 2009, the Group employed 695 (2008: 699) full time employees (excluding those under the payroll of associates of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group. Remuneration packages are reviewed either annually or by special increment.

During the year ended 31 December 2009, the Company and its subsidiaries have 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 of Hong Kong Limited (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 (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the financial year ended 31 December 2009, except for the following deviations:

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

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

– Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the 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 did not attend the annual general meeting of the Company held on 1 June 2009 (the "Meeting") as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

Details of the Company's compliance with the provisions of the Code during the year together with the above deviations will be set out in the Corporate Governance Report in the Company's 2009 annual report.

## 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 year.

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

Hong Kong, 15 April 2010

*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*