

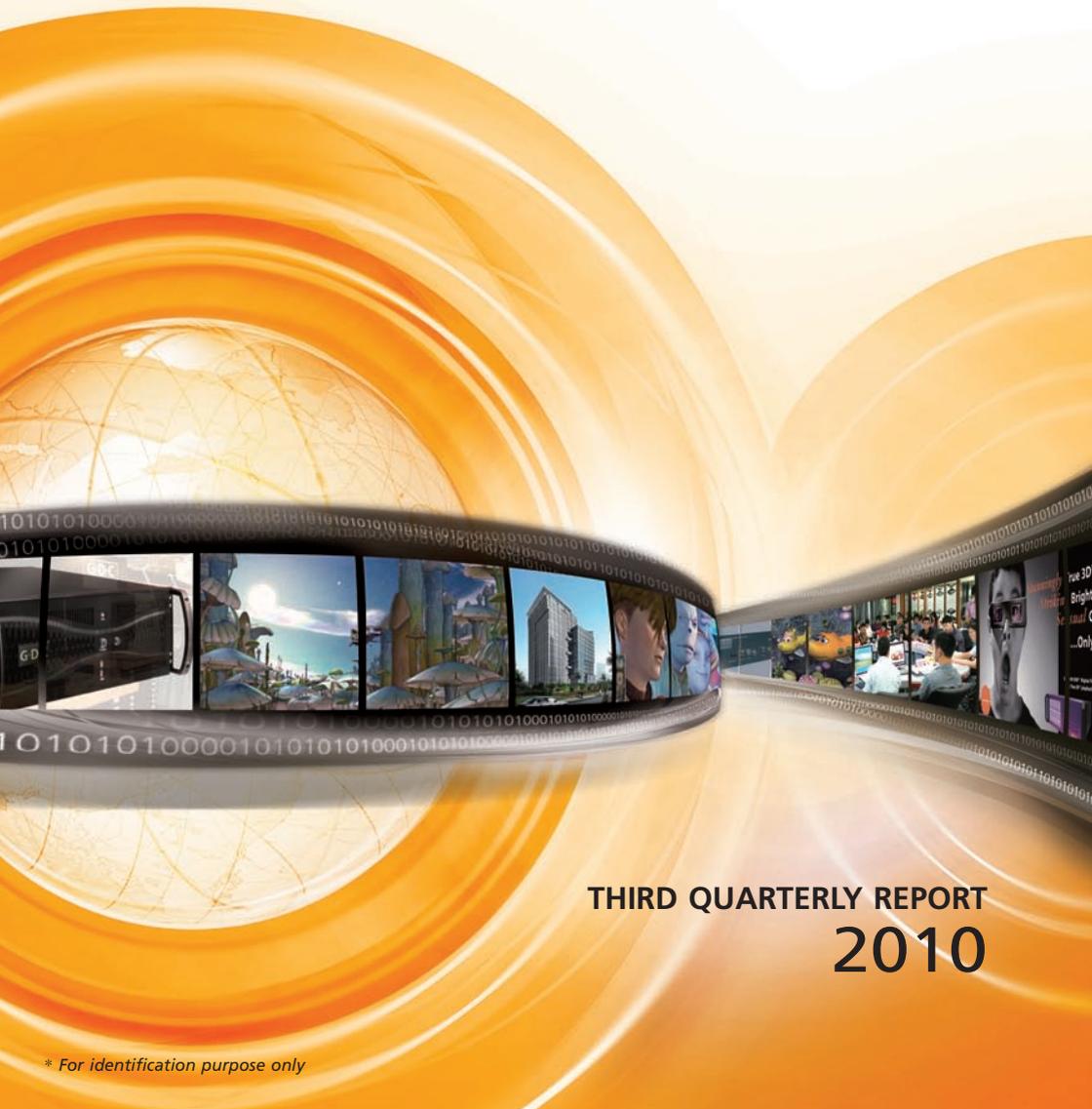


Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)



THIRD QUARTERLY REPORT
2010

* For identification purpose only

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

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Shaofeng (*Chairman*)

Mr. Chen Zheng (*Managing Director*)

Mr. Jin Guo Ping (*Deputy Managing Director*)

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent non-executive Directors

Mr. Kwong Che Keung, Gordon

Mr. Hui Hung, Stephen

Prof. Japhet Sebastian Law

Executive Committee

Mr. Li Shaofeng (*Chairman*)

Mr. Chen Zheng

Mr. Jin Guo Ping

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)

Mr. Hui Hung, Stephen

Prof. Japhet Sebastian Law

Nomination Committee

Mr. Li Shaofeng (*Chairman*)

Mr. Leung Shun Sang, Tony (*Vice Chairman*)

Mr. Kwong Che Keung, Gordon

Mr. Hui Hung, Stephen

Prof. Japhet Sebastian Law

Remuneration Committee

Mr. Leung Shun Sang, Tony (*Chairman*)

Mr. Li Shaofeng (*Vice Chairman*)

Mr. Kwong Che Keung, Gordon

Mr. Hui Hung, Stephen

Prof. Japhet Sebastian Law

Compliance Officer

Mr. Chen Zheng

Company Secretary

Mr. Chiu Ming Kin

CORPORATE INFORMATION *(Continued)*

| | |
|---|--|
| Authorised Representatives | Mr. Chen Zheng Mr. Chiu Ming Kin |
| Auditor | Deloitte Touche Tohmatsu |
| Bermuda Principal Share Registrar and Transfer Office | The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda |
| Hong Kong Branch Share Registrar and Transfer Office | Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |
| Registered Office | Clarendon House 2 Church Street Hamilton HM 11 Bermuda |
| Head Office and Principal Place of Business in Hong Kong | Unit 1-7, 20/F., Kodak House II 39 Healthy Street East, North Point Hong Kong |
| Stock Code | 8271 |
| Website | www.gdc-world.com |

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") is pleased to report the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 30 September 2010 with comparative figures for the corresponding periods in the year 2009.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended 30 September 2010

| | NOTES | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Revenue | 3 | 159,501 | 102,576 | 413,783 | 263,632 |
| Cost of sales | | (90,281) | (76,685) | (234,025) | (204,390) |
| Gross profit | | 69,220 | 25,891 | 179,758 | 59,242 |
| Other income | 4 | 2,119 | 2,594 | 8,309 | 10,875 |
| Distribution costs and selling expenses | | (3,277) | (1,827) | (8,582) | (5,346) |
| Administrative expenses | | (25,236) | (10,571) | (65,477) | (49,169) |
| Changes in fair value of held-for-trading investments | | 1 | (225) | 271 | 631 |
| Finance costs | 5 | (219) | (138) | (589) | (806) |
| Share of result of an associate | | (46) | 71 | (65) | (218) |
| Loss on dilution of interest in a subsidiary | 6 | - | (165) | - | (165) |
| Profit before tax | | 42,562 | 15,630 | 113,625 | 15,044 |
| Income tax expense | 7 | (5,449) | (2,000) | (12,753) | (4,573) |
| Profit for the period | | 37,113 | 13,630 | 100,872 | 10,471 |
| Other comprehensive income (expense): | | | | | |
| Exchange differences on translation of foreign operations | | 2,927 | - | 5,636 | (54) |
| Total comprehensive income for the period | | 40,040 | 13,630 | 106,508 | 10,417 |
| Profit for the period attributable to: | | | | | |
| Owners of the Company | | 20,965 | 9,875 | 58,259 | 261 |
| Non-controlling interests | | 16,148 | 3,755 | 42,613 | 10,210 |
| | | 37,113 | 13,630 | 100,872 | 10,471 |
| Total comprehensive income for the period attributable to: | | | | | |
| Owners of the Company | | 23,415 | 9,875 | 63,248 | 227 |
| Non-controlling interests | | 16,625 | 3,755 | 43,260 | 10,190 |
| | | 40,040 | 13,630 | 106,508 | 10,417 |
| Earnings per share: | 8 | HK cents | HK cents | HK cents | HK cents |
| Basic and diluted | | 1.62 | 0.76 | 4.50 | 0.02 |

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated statement of comprehensive income has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated statement of comprehensive income has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the unaudited condensed consolidated statement of comprehensive income are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

Investment properties

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

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

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

Productions work in progress

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Besides, in the current period, the Group has applied, for the first time, a number of revised Standard, Amendments to Standards and Interpretation (“revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the financial year beginning on 1 January 2010.

The Group applies HKFRS 3 (Revised) “*Business Combinations*” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. In the current period, the Group acquires 68% of the issued capital of 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) (“Guangdong Shishang”), a limited liability company established in the People’s Republic of China (the “PRC”, for the purpose of this report, does not include Hong Kong, Macau and Taiwan), which has been accounted for as acquisition of assets and assumption of liabilities as it does not constitute a business under HKFRS 3 (Revised). As there is no transaction during the current period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs have no material effect on the unaudited condensed consolidated statement of comprehensive income of the Group for the current or prior accounting periods.

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

Except as described below, the application of these revised HKFRSs had no material effect on the unaudited condensed consolidated statement of comprehensive income of the Group for the current or prior accounting periods.

HKAS 27 (Revised) “Consolidated and Separate Financial Statements”

The application of HKAS 27 (Revised) has resulted in changes in the Group’s accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss. As a result, difference arising on dilution of interest in a subsidiary upon exercise of the subsidiary’s share options of approximately HK\$2,261,000 has been directly credited in equity in the current period.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) | Improvements to HKFRSs 2010 ³ |
| HKAS 24 (Revised) | Related Party Disclosures ⁴ |
| HKAS 32 (Amendment) | Classification of Right Issues ¹ |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ² |
| HKFRS 9 | Financial Instruments ⁵ |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement ⁴ |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments ² |

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

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

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

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

⁵ Effective for annual periods beginning on or after 1 January 2013.

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.

The Directors anticipate that the application of other new and revised Standard, Amendments to Standards or Interpretations will have no material impact on the results of the Group.

3. REVENUE

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

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|-------------------|----------|
| | 30 September | | 30 September | |
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales of goods | 142,973 | 71,543 | 361,823 | 197,965 |
| Training fee | 6,393 | 4,926 | 16,879 | 14,271 |
| Technical service income | 6,025 | 4,477 | 17,578 | 7,198 |
| Revenue from contracts for computer graphic creation and production | 2,139 | 19,951 | 11,937 | 40,953 |
| Revenue from provision of assembly and integration services | 1,226 | - | 4,258 | - |
| Rental income | 745 | 466 | 1,308 | 1,462 |
| Revenue from exhibition of motion pictures | - | 1,213 | - | 1,213 |
| Royalty income from share of box office receipts | - | - | - | 570 |
| | 159,501 | 102,576 | 413,783 | 263,632 |

4. OTHER INCOME

Other income for the nine months ended 30 September 2010 primarily comprises government grants of approximately HK\$4,149,000 (Nine months ended 30 September 2009: HK\$888,000) and interest income of approximately HK\$2,880,000 (Nine months ended 30 September 2009: HK\$4,345,000).

Other income for the nine months ended 30 September 2009 also included an one-off gain of approximately HK\$2,543,000 (Nine months ended 30 September 2010: Nil) on disposal of an intangible asset to China Film Group Corporation, the majority shareholder of an associate of the Group, and the relevant imputed interest income of approximately HK\$2,888,000 (Nine months ended 30 September 2010: Nil) derived from the deferred consideration. 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.

5. FINANCE COSTS

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|----------|-----------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on: | | | | |
| Bank borrowings wholly repayable within five years | 1,347 | 138 | 3,325 | 527 |
| Loan from a fellow subsidiary | <u>-</u> | <u>-</u> | <u>-</u> | <u>279</u> |
| Total borrowing costs | 1,347 | 138 | 3,325 | 806 |
| Less: amount capitalised in the cost of qualifying assets | (1,128) | <u>-</u> | (2,736) | <u>-</u> |
| | 219 | 138 | 589 | 806 |

6. LOSS ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount for the nine months ended 30 September 2009 represented approximately HK\$165,000 (Nine months ended 30 September 2010: Nil) from the 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 that period.

7. INCOMETAX EXPENSE

| | Three months ended 30 September 2010 | | Nine months ended 30 September 2010 | |
|-----------------------------------|--|----------|---|----------|
| | 2009 | 2009 | 2009 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current tax: | | | | |
| PRC Enterprise Income Tax ("EIT") | 1,508 | 2,000 | 8,812 | 4,573 |
| Other jurisdictions | 3,941 | – | 3,941 | – |
| | 5,449 | 2,000 | 12,753 | 4,573 |

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

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate progressively increased to 25% over a five-year transitional period. The tax concession for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the EIT Law based on the revised income tax rate. For the nine months ended 30 September 2010, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 22% to 25% (Nine months ended 30 September 2009: 20% to 25%).

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

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

8. EARNINGS PER SHARE

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

| | Three months ended 30 September 2010 | | Nine months ended 30 September 2010 | |
|--|--|----------|---|----------|
| | 2009 | 2009 | 2009 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Earnings | | | | |
| Earnings for the purposes of | | | | |
| basic and diluted earnings per share | | | | |
| (profit for the period attributable to | | | | |
| owners of the Company) | 20,965 | 9,875 | 58,259 | 261 |
| | '000 | '000 | '000 | '000 |

Number of shares

| | | | | |
|--------------------------------------|------------------|-----------|------------------|-----------|
| Weighted average number of ordinary | | | | |
| shares for the purposes of basic and | | | | |
| diluted earnings per share | 1,295,246 | 1,295,246 | 1,295,246 | 1,295,246 |

The computation of diluted earnings per share for the three months and the nine months ended 30 September 2010 and 2009 does not assume the exercise of the share options as the exercise prices of the share options are higher than the average market price of the shares for the periods.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital HK\$'000 | Capital contribution reserve HK\$'000 | Contributed surplus reserve HK\$'000 | Statutory reserve HK\$'000 | Share options reserve HK\$'000 | Exchange reserve HK\$'000 | Special reserve HK\$'000 | Retained earnings HK\$'000 | Attributable to owners of the Company HK\$'000 | Share options reserve of a subsidiary HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
|---|-------------------------------|--|---|----------------------------------|---|---------------------------------|--------------------------------|----------------------------------|--|--|--|-------------------|
| At 1 January 2010 | 12,952 | 445 | 245,881 | 6,362 | 27,345 | 21,565 | (46,366) | 61,289 | 329,473 | 5,775 | 74,657 | 409,905 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | 4,989 | - | - | 4,989 | - | 647 | 5,636 |
| Profit for the period | - | - | - | - | - | - | - | 58,259 | 58,259 | - | 42,613 | 100,872 |
| Total comprehensive income for the period | - | - | - | - | - | 4,989 | - | 58,259 | 63,248 | - | 43,260 | 106,508 |
| Sub-total | 12,952 | 445 | 245,881 | 6,362 | 27,345 | 26,554 | (46,366) | 119,548 | 392,721 | 5,775 | 117,917 | 516,413 |
| Cancellation of share options granted | - | - | - | - | (4,792) | - | - | 4,792 | - | - | - | - |
| Non-controlling interests arising on acquisition of a subsidiary (Note (i)) | - | - | - | - | - | - | - | - | - | - | 27,927 | 27,927 |
| Difference arising on dilution of interest in a subsidiary (Note (ii)) | - | - | - | - | - | - | 2,261 | - | 2,261 | (1,375) | 2,414 | 3,300 |
| At 30 September 2010 | 12,952 | 445 | 245,881 | 6,362 | 22,553 | 26,554 | (44,105) | 124,340 | 394,982 | 4,400 | 148,258 | 547,640 |
| At 1 January 2009 | 12,952 | 445 | 245,881 | 680 | 38,765 | 21,599 | (46,366) | 31,075 | 305,031 | 15,838 | 57,063 | 377,952 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | (34) | - | - | (34) | - | (20) | (54) |
| Profit for the period | - | - | - | - | - | - | - | 261 | 261 | - | 10,210 | 10,471 |
| Total comprehensive income for the period | - | - | - | - | - | (34) | - | 261 | 227 | - | 10,190 | 10,417 |
| Sub-total | 12,952 | 445 | 245,881 | 680 | 38,765 | 21,565 | (46,366) | 31,336 | 305,258 | 15,838 | 67,273 | 388,369 |
| Exercise of share options of a subsidiary | - | - | - | - | - | - | - | - | - | (6) | 236 | 230 |
| Cancellation of share options granted by a subsidiary | - | - | - | - | - | - | - | 10,026 | 10,026 | (10,026) | - | - |
| At 30 September 2009 | 12,952 | 445 | 245,881 | 680 | 38,765 | 21,565 | (46,366) | 41,362 | 315,284 | 5,806 | 67,509 | 388,599 |

Notes:

- (i) The amount represents non-controlling interests arising on acquisition of 68% of the issued capital of Guangdong Shishang for consideration of RMB56,060,000 (equivalent to approximately HK\$63,705,000). The acquisition was completed on 20 April 2010. Details of the acquisition were set out in the announcement of the Company dated 30 March 2010.
- (ii) The amount of approximately HK\$2,261,000 represents the excess of proceeds of HK\$3,300,000 received by GDC Technology, a subsidiary of the Company, upon exercise of share options of GDC Technology over the carrying amount of non-controlling interests deemed to be disposal of on dilution amounting to approximately HK\$1,039,000. The amount has been recognised in special reserve in the current period under HKAS 27 (Revised).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2010 (Nine months ended 30 September 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the nine months ended 30 September 2010 is approximately HK\$413,783,000, when comparing with that of approximately HK\$263,632,000 for the corresponding period in the year 2009, representing an increase of approximately 57%. The increase is mainly attributable to increases in sales of goods, technical service income and revenue from provision of assembly and integration services by approximately HK\$163,858,000, HK\$10,380,000 and HK\$4,258,000, respectively. As a result of the continuous roll-out of digital cinemas in the United States, the People's Republic of China (the "PRC"; for the purpose of this report, does not include Hong Kong, Macau and Taiwan), South Korea and other countries, more digital cinema equipment is sold and related services are provided during this period. However, there is a decrease in revenue from contracts for computer graphic ("CG") creation and production by approximately HK\$29,016,000 during this period as the Group receives fewer orders for CG production.

Cost of sales for the nine months ended 30 September 2010 amounts to approximately HK\$234,025,000, when comparing with that of approximately HK\$204,390,000 for the corresponding period in the year 2009, representing an increase of approximately 14%. The increase is mainly due to increase in costs of goods sold.

The Group records a gross profit of approximately HK\$179,758,000 for the nine months ended 30 September 2010, representing a gross profit margin of approximately 43%. Comparing with the gross profit margin of approximately 22% for the corresponding period in the year 2009, the significant improvement is mainly due to increase in sales of digital cinema equipment with higher margins and increase in technical service income and revenue from provision of assembly and integration services in relation to digital cinemas during this period.

Other income for the nine months ended 30 September 2010 amounts to approximately HK\$8,309,000 (Nine months ended 30 September 2009: HK\$10,875,000), representing a decrease of approximately 24%. The decrease is mainly due to the fact that the amount for the nine months ended 30 September 2009 included an one-off gain of approximately HK\$2,543,000 on disposal of intangible asset to China Film Group Corporation ("CFG") upon termination of the cooperation with CFGC for the deployment of digital cinema network in the PRC and the relevant imputed interest income of approximately HK\$2,888,000 derived from the deferred consideration.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Administrative expenses for the nine months ended 30 September 2010 amounts to approximately HK\$65,477,000 (Nine months ended 30 September 2009: HK\$49,169,000), representing an increase of approximately 33%. The increase is mainly due to higher staff costs, research and development costs and office running expenses as a result of growth in the scale of operations of the Group during this period.

Overall, the Group records profit of approximately HK\$58,259,000 for the nine months ended 30 September 2010 attributable to owners of the Company, when comparing with that of approximately HK\$261,000 for the corresponding period in the year 2009.

BUSINESS REVIEW AND OUTLOOK

Construction of the Group's headquarters building at Shenzhen High-tech Industrial Park will be completed soon and the Group's subsidiaries in Shenzhen will move in during the fourth quarter of the year 2010. By then, the Group will further expand its research, development and production centre of its multi-media digital contents and CG business, production capacity and efficiency of all divisions will enhance further.

Digital content distribution and exhibitions

Revenue from digital content distribution and exhibitions division records an increase of approximately 83% to approximately HK\$380,175,000 for the nine months ended 30 September 2010 when comparing with that for the corresponding period in the year 2009. The improvement is mainly due to the success of 3D feature films and the availability of funding for digital cinema deployment, driving the brisk demand for installation of digital equipment in cinemas for exhibition of digital contents. The Group continues to secure orders for its fifth generation digital cinema server – SX2000 with an integrated media block ("IMB") that integrates with the DLP Cinema® Series 2 projector. The Group is one of the major suppliers in the world that have the capability to produce IMB for the DLP Cinema® Series 2 projector. In addition to the United States and the PRC, the Group also begins to sell digital cinema products through its newly appointed resellers in Australia, Europe, Japan and Russia during this period.

With the new generation of servers and other products for theatre automation and management, digital cinema mastering, cinema digital signage and integrated projection system, the Group is capable of offering exhibitors an all-round digital cinema solution and developing products that aim at meeting more than the standard Digital Cinema Initiative ("DCI") specifications, thus differentiating its technology from its competitors.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Digital content distribution and exhibitions (Continued)

To capture the potential opportunities and meet the upcoming challenges in digital cinema industry, the Group strengthens its research and development, production facilities, service teams and marketing effort to provide superior digital delivery and display solutions to customers. In order to deliver better services and customer support to the exhibitors as well as to grow prospective customer base in the United States, the Group establishes a new office in the East Coast of the United States and conducts digital cinema courses providing specific proficiencies for theatre managers, projectionists, service and installation partners as well as field service engineers. In the PRC, the Group's products have been deployed in more than 25 provinces, the Group employs more local support staff to strength its round-the-clock customer service centre to provide faster and better services to customers there. The Group will allocate more resources in new markets such as Australia, Europe, Japan, Latin America and Russia.

Deployment of digital cinema network in Asia

In Asia (other than the PRC), the Group has signed 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 agreements with two major exhibitors in Hong Kong to participate in the VPF arrangement and endeavors to enter into similar agreements with exhibitors in other Asian jurisdictions in the coming future.

CG creation and production

Since the second half of the year 2009, the international animation production industry has been depressed with less investment in new projects, resulting in a decrease in revenue from CG creation and production division for the nine months ended 30 September 2010 by approximately 72% when comparing with that for the corresponding period in the year 2009. However, the Group currently has three CG production projects from Europe and North America in progress, with several other projects under testing stage, of which productions of not less than two projects will commence in the coming few months. Besides, the Group will work with renowned directors and producers and large international animation content production and distribution companies for co-production projects, one with a television network in Europe and another with a famous creative company in America are under negotiation.

In view of the growing 3D film market and animation industry in the PRC, the Group plans to promote new 3D animation programmes and invest in its own traditional and CG animation IP assets. During this period, the Group begins production of two 3D-animated films, two CG-animated and one traditional-animated television series, two of which receives subsidies from the local municipal government.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG training

For the nine months ended 30 September 2010, CG training division records steady growth in revenue of approximately 18% when comparing with that for the corresponding period in the year 2009. After upgrading the existing training courses with the latest knowledge of CG production, online and other games, the Group organises new professional training programmes in other areas, including after effects, virtual reality and case studies for animation, in response to market demands. 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, Multiple Certifications”, and to train up their practical skills to get ready for work immediately after graduation.

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

Cultural park

During this period, the Group acquires 68% interest in 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) (“Guangdong Shishang”), a limited liability company established in the PRC. Guangdong Shishang has entered into a framework agreement with 珠江電影製片有限公司 (Pearl River Film Production Company Limited*) to redevelop 珠影文化產業園 (Pearl River Film Cultural Park*). The Group considers that this acquisition will enable the Group to participate in the media entertainment and related commercial property development businesses in the PRC, which have considerable growth in recent years and are expected that this trend will continue to grow with the PRC economy in the future. The Group is now preparing detailed construction plans and budget for the redevelopment.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities (whether on the Stock Exchange or otherwise) during the period under review.

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

As at 30 September 2010, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in the Company | | | Total interests as to % to the issued share capital of the Company as at 30.09.2010 |
|-----------------------------|--------------------------------------|--|-------------------------------------|-----------------|---|
| | | Interests in shares | Interests under equity derivatives* | Total interests | |
| Mr. Chen Zheng | Beneficial owner | 8,718,200 | 4,900,000 | 13,618,200 | 1.05% |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 20,008,200 | 4,900,000 | 24,908,200 | 1.92% |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 800,820 | 490,000 | 1,290,820 | 0.09% |
| Mr. Hui Hung, Stephen | Beneficial owner | 800,820 | 490,000 | 1,290,820 | 0.09% |

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

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

(Continued)

- (b) Long positions in the shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in Shougang Grand | | | Total interests | Total interests as to % to the issued share capital of Shougang Grand as at 30.09.2010 |
|---------------------------|--------------------------------------|---|---------------------------|-----------------|-----------------|--|
| | | Interests | | | | |
| | | Interests in shares | under equity derivatives* | Total interests | | |
| Mr. Chen Zheng | Beneficial owner | - | 18,368,000 | 18,368,000 | 1.59% | |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 8,278,000 | 19,368,679 | 27,646,679 | 2.39% | |

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

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

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in GDC Technology | | | Total interests | Total interests as to % to the issued share capital of GDC Technology as at 30.09.2010 |
|-----------------------------|--------------------------------------|---|---------------------------|-----------------|-----------------|--|
| | | Interests | | | | |
| | | Interests in shares | under equity derivatives* | Total interests | | |
| Mr. Chen Zheng | Beneficial owner | 8,533,334 | 1,650,000 | 10,183,334 | 4.33% | |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 2,130,000 | 1,650,000 | 3,780,000 | 1.61% | |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 1,706,667 | 165,000 | 1,871,667 | 0.79% | |
| Mr. Hui Hung, Stephen | Beneficial owner | - | 165,000 | 165,000 | 0.07% | |

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

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

(Continued)

Save as disclosed above, as at 30 September 2010, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the nine months ended 30 September 2010 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

| Name of shareholder | Capacity in which interests are held | Number of shares held in the Company | Interests as to % to the total issued share capital of the Company as at 30.09.2010 |
|---|--------------------------------------|--------------------------------------|---|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Interests of controlled corporations | 656,360,023 (Note) | 50.67% |
| Wheeling Holdings Limited ("Wheeling") | Interests of controlled corporations | 656,360,023 (Note) | 50.67% |
| Shougang Grand | Interests of controlled corporations | 656,360,023 (Note) | 50.67% |
| Upper Nice Assets Ltd. ("Upper Nice") | Beneficial owner | 656,360,023 (Note) | 50.67% |
| Keywise Capital Management (HK) Limited | Investment manager | 140,342,000 | 10.84% |
| Keywise Greater China Opportunities Master Fund | Beneficial owner | 89,391,600 | 6.90% |

Note: Upper Nice is an indirect wholly-own subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.37% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporations are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 30 September 2010, the Company has not been notified of any other person or corporations (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as record in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted, exercised or cancelled in accordance with the terms of the Scheme during the nine months ended 30 September 2010. Details of movements in the share options under the Scheme during the period are as follows:

| Category or name of grantees | Number of shares options to subscribe for shares of the Company | | | | As at 30.09.2010 | Date of grant | Exercise period | Exercise price per share |
|---------------------------------|---|---|---|--------------------------|-------------------|---------------|-------------------------|--------------------------|
| | As at 01.01.2010 | Transferred to other category during the period | Transferred from other category during the period | Lapsed during the period | | | | |
| Directors of the Company | | | | | | | | |
| Mr. Chen Zheng | 4,900,000 | - | - | - | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| Mr. Leung Shun Sang, Tony | 4,900,000 | - | - | - | 4,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| Mr. Kwong Che Keung, Gordon | 490,000 | - | - | - | 490,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| Mr. Hui Hung, Stephen | 490,000 | - | - | - | 490,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| Mr. Cao Zhong | 4,900,000 | (4,900,000) ¹ | - | - | - | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| | <u>15,680,000</u> | <u>(4,900,000)</u> | <u>-</u> | <u>-</u> | <u>10,780,000</u> | | | |
| Employees of the Group | | | | | | | | |
| | 2,300,000 | (100,000) ² | - | (2,200,000) ³ | - | 22.03.2007 | 22.03.2007 – 21.03.2010 | HK\$1.07 |
| | 2,262,000 | (200,000) ² | - | (2,062,000) ⁴ | - | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK\$1.52 |
| | 9,900,000 | - | - | - | 9,900,000 | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| | <u>14,462,000</u> | <u>(300,000)</u> | <u>-</u> | <u>(4,262,000)</u> | <u>9,900,000</u> | | | |
| Other participants | | | | | | | | |
| | - | - | 100,000 ² | (100,000) ² | - | 22.03.2007 | 22.03.2007 – 21.03.2010 | HK\$1.07 |
| | 1,781,000 | - | 200,000 ² | (1,981,000) ² | - | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK\$1.52 |
| | <u>-</u> | <u>-</u> | <u>4,900,000¹</u> | <u>-</u> | <u>4,900,000</u> | 30.10.2007 | 30.10.2007 – 29.10.2012 | HK\$2.75 |
| | <u>1,781,000</u> | <u>-</u> | <u>5,200,000</u> | <u>(2,081,000)</u> | <u>4,900,000</u> | | | |
| | <u>31,923,000</u> | <u>(5,200,000)</u> | <u>5,200,000</u> | <u>(6,343,000)</u> | <u>25,580,000</u> | | | |

SHARE OPTION SCHEMES *(Continued)*

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

Notes:

1. *Such share options were re-classified from the category of "Directors of the Company" to "Other participants" as Mr. Cao Zhong ceased to be a director of the Company and became a consultant of the Group during the nine months ended 30 September 2010.*
2. *Such share options were re-classified to the category of "Other participants" upon those grantees ceased to be employees of the Group during the nine months ended 30 September 2010. According to the Scheme, such share options lapsed on the expiry of the three months period following the date of cessation of those grantees as employees of the Group.*
3. *Such share options lapsed on 22 March 2010 according to the Scheme.*
4. *Such share options were lapsed on 4 April 2010 according to the Scheme.*
5. *According to the Scheme, 820,000 share options lapsed upon the expiry of the three months period following the date of cessation of those grantees as other participants of the Group and 1,161,000 share options lapsed on 4 April 2010.*

SHARE OPTION SCHEMES *(Continued)*

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

Each of the Company and Shougang Grand has adopted the GDC Technology Share Option Scheme by a shareholders' resolution passed at their respective special general meeting held on 19 September 2006. No share option was granted, cancelled or lapsed in accordance with the terms of the GDC Technology Share Option Scheme during the nine months ended 30 September 2010. Details of movements in the share options under the GDC Technology Share Option Scheme during the period are as follows:

| Number of shares options to subscribe for shares of GDC Technology | | | | | | | | |
|--|------------------|---|---|-----------------------------|------------------|---------------|-------------------------|--------------------------|
| Category or name of grantees | As at 01.01.2010 | Transferred to other category during the period | Transferred from other category during the period | Exercised during the period | As at 30.09.2010 | Date of grant | Exercise period | Exercise price per share |
| Directors of the Company | | | | | | | | |
| Mr. Chen Zheng | 1,650,000 | - | - | - | 1,650,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| Mr. Leung Shun Sang, Tony | 1,650,000 | - | - | - | 1,650,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| Mr. Kwong Che Keung, Gordon | 165,000 | - | - | - | 165,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| Mr. Hui Hung, Stephen | 165,000 | - | - | - | 165,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| Mr. Cao Zhong | 1,650,000 | (1,650,000) ¹ | - | - | - | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| | 5,280,000 | (1,650,000) | - | - | 3,630,000 | | | |
| Employees of the Group | | | | | | | | |
| | 1,650,000 | - | - | - | 1,650,000 | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| Other participant | | | | | | | | |
| | - | - | 1,650,000 ¹ | (1,650,000) | - | 02.11.2007 | 02.11.2007 – 01.11.2012 | HK\$2.00 |
| | 6,930,000 | (1,650,000) | 1,650,000 | (1,650,000) | 5,280,000 | | | |

Note:

- Such share options were re-classified from the category of "Directors of the Company" to "Other participant" as Mr. Cao Zhong ceased to be a director of the Company and became a consultant of the Group during the nine months ended 30 September 2010.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 11.04 of the GEM Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the period:

| Name of Director | Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|---------------------------|--|--|---|
| Mr. Li Shaofeng | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Chairman |
| Mr. Chen Zheng | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Managing director of operations |
| Mr. Leung Shun Sang, Tony | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Director |

Notes:

1. *Shougang Grand is the holding company of the Company which indirectly held approximately 50.67% interests in the Company as at 30 September 2010.*
2. *Such businesses may be carried out through the subsidiaries or associates of Shougang Grand concerned or by way of other forms of investments.*

The Board is independent from the board of directors of Shougang Grand. Coupled with the expertise and professional experience of Independent non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Shougang Grand.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the nine months ended 30 September 2010.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions (the "Code of Conduct regarding Directors' Securities Transactions") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Standard of Dealings"). Having made specific enquiry of all Directors, all Directors confirm that they have complied with the required Standard of Dealings and Code of Conduct regarding Directors' Securities Transactions throughout the nine months ended 30 September 2010.

AUDIT COMMITTEE

The Group's third quarterly results for the nine months ended 30 September 2010 was unaudited. The Company's audit committee (the "Audit Committee") has reviewed the 2010 unaudited third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company on 26 October 2010 for, amongst other things, reviewing the third quarterly results of the Group for the nine months ended 30 September 2010.

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 directors, management and staff for their hard work and dedication throughout the period.

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 5 November 2010