

Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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COMPANY INFORMATION**Joint Chairmen (Non-Executive Directors)**

Mr. Anthony Francis Neoh
Mr. Cao Zhong

Executive Directors

Mr. Raymond Dennis Neoh (Vice-chairman)
Mr. Chen Zheng (General Manager)

Non-Executive Director

Dr. David Deng Wei (Vice-chairman)

Independent Non-Executive Directors

Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law
Mr. Bu Fan Xiao

Alternate Director

Mr. Zhang Dong Sheng
(to Dr. David Deng Wei)

Chief Technology Officer

Dr. Chong Man Nang

Chief Financial Officer & Qualified Accountant

Ms. Cheung Kei Yim

Compliance Officer

Mr. Chen Zheng

Company Secretary

Ms. Cheung Kei Yim
Mr. Ira Stuart Outerbridge III (Assistant Secretary)

Audit Committee

Mr. Gordon Kwong Che Keung (Chairman)
Mr. Anthony Francis Neoh
Professor Japhet Sebastian Law

Remuneration Committee

Professor Japhet Sebastian Law (Chairman)
Dr. David Deng Wei

Nomination Committee

Mr. Bu Fan Xiao (Convenor)
Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law

Disclosure Policy Committee

Mr. Anthony Francis Neoh (Chairman)
Dr. David Deng Wei
Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law

Authorised Representatives

Mr. Chen Zheng
Mr. Raymond Dennis Neoh

Bermuda Resident Representative

Mr. John C. R. Collis

Bermuda Deputy Resident Representative

Mr. Anthony D. Whaley

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Principal Bankers

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The Development Bank of Singapore Limited
Standard Chartered Bank
Shenzhen Commercial Bank
Bank of China

Principal Share Registrar and Transfer Office

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The board of Directors (the "Board") is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the six months ended 30 June 2005, together with the unaudited comparative figures for the corresponding period in 2004, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2005

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	3 & 4	4,570	9,370	10,320	15,291
Cost of sales		(8,567)	(7,177)	(11,935)	(12,065)
Gross (loss)/profit		(3,997)	2,193	(1,615)	3,226
Rental expense written back		-	475	3,394	479
Other operating income		240	-	257	-
Distribution costs		(528)	(1,144)	(1,618)	(2,153)
Administrative expenses		(7,570)	(9,419)	(17,690)	(18,664)
Loss from operations		(11,855)	(7,895)	(17,272)	(17,112)
Finance costs		(1,823)	(1,142)	(3,443)	(2,182)
Loss before income tax		(13,678)	(9,037)	(20,715)	(19,294)
Income tax	5	(360)	-	(360)	-
Net loss for the period		(14,038)	(9,037)	(21,075)	(19,294)
Loss per share	7				
Basic		1.75 cents	1.14 cents	2.63 cents	2.46 cents
Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Notes	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	10,217	14,000
Deferred tax assets		151	151
		10,368	14,151
Current assets			
Inventories, at cost		5,360	5,523
Production work in progress	9	27,114	21,301
Trade receivables	10	4,374	18,011
Prepayments, deposits and other receivables		3,692	4,435
Pledged bank deposit		2,016	2,004
Bank balances and cash		4,941	3,635
		47,497	54,909
Current liabilities			
Training fees received in advance		1,509	2,168
Trade payables	11	3,700	11,018
Other payables and accruals		20,154	20,798
Amounts due to directors		4,885	3,037
Amounts due to shareholders		–	2,147
Amounts due to related parties		422	1,180
Amount due to a fellow subsidiary		795	–
Tax liabilities		–	25
Loan from a shareholder – due within one year		–	3,157
Loan from a fellow subsidiary		35,336	–
Obligations under finance leases – due within one year		4,278	6,796
Bank borrowings – due within one year		29,133	31,907
Other loans		12,780	19,940
		112,992	102,173
Net current liabilities		(65,495)	(47,264)
Total assets less current liabilities		(55,127)	(33,113)
Non-current liabilities			
Obligations under finance leases – due after one year		897	2,211
Loan from a shareholder – due after one year		–	18,237
Loan from a director – due after one year		18,237	–
Deferred tax liability		360	–
		19,494	20,448
		(74,621)	(53,561)
Capital and reserves			
Share capital	12	8,008	8,008
Share premium and reserves		(82,629)	(61,569)
		(74,621)	(53,561)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the period ended 30 June 2005*

	Share capital	Share premium account	Contributed surplus	Statutory reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	8,008	92,438	40,271	680	34	(194,992)	(53,561)
Exchange differences on translation of overseas operations not recognised in the consolidated income statement	-	-	-	-	15	-	15
Net loss for the period	-	-	-	-	-	(21,075)	(21,075)
Transfer to statutory reserve	-	-	-	281	-	(281)	-
At 30 June 2005	8,008	92,438	40,271	961	49	(216,348)	(74,621)
At 1 January 2004	7,800	84,299	40,271	538	48	(64,514)	68,442
Issue of shares by placing	208	8,536	-	-	-	-	8,744
Share issuance costs	-	(397)	-	-	-	-	(397)
Net loss for the period	-	-	-	-	-	(19,294)	(19,294)
At 30 June 2004	8,008	92,438	40,271	538	48	(83,808)	57,495

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the period ended 30 June 2005*

	Six months ended 30 June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Net cash used in operating activities	(13,336)	(28,797)
Net cash used in investing activities	(257)	(8,224)
Net cash from financing activities	14,223	16,855
Net increase/(decrease) in cash and cash equivalents	630	(20,166)
Cash and cash equivalents at 1 January	1,579	21,889
Cash and cash equivalents at 30 June	2,209	1,723
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	4,941	5,596
Secured bank overdrafts	(2,732)	(3,873)
	2,209	1,723

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have 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 (the "GEM Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting.

The Group incurred losses of approximately HK\$21,075,000 for the period ended 30 June 2005 and the Group had net current liabilities of approximately HK\$65,495,000 as at 30 June 2005. Notwithstanding, the directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(1) **Bank borrowing's restructuring**

The Group signed an agreement with a bank to extend the maturity date of a bank loan of RMB13,000,000 (equivalent to approximately HK\$12,257,000) from March 2005 to March 2006.

In addition, another bank loan of RMB15,000,000 (equivalent to approximately HK\$14,143,000) borrowed from Bank of China, Shenzhen branch has to be repaid in 3 November 2005.

However, the directors are of the opinion that the maturity dates of those bank borrowings are likely to be extended for a further year.

(2) **Other loan from SCG Finance Corporation Limited, a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG")**

SCG is incorporated in Bermuda as an exempted company with limited liability with its shares listed on the Main Board of the Stock Exchange. SCG became the holding company of the Group in March 2005 and the directors are of the opinion that SCG will provide continuous financial support to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group have been prepared under historical cost convention.

The accounting policies used in preparing the unaudited condensed financial statements for the six months ended 30 June 2005 are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

In the current period, the Group has applied for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKAs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005.

The Company had in aggregate 22,631,615 share options outstanding as at 31 December 2004. In accordance with the new HKFRSs, the fair value of these share options at grant date should have been amortised over the relevant vesting periods to the income statement, and this treatment should be applied retrospectively. However, on 13 January 2005, Shougang Concord Grand (Group) Limited, now the holding company of the Company, issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company (the "Cash Offer"). As at 30 June 2005, all the share options granted have been cancelled in accordance with the Cash Offer. There will not be any impact of the fair value of the share options on the income statement for the period ended 30 June 2005 and, in view of such, no prior year adjustment is done to the accumulated losses brought forward nor the results for the period ended 30 June 2004.

3. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on training fee, computer graphic ("CG") creation and production income, rental income from leasing of equipment, distribution of digital motion pictures and franchise fee and technical service income during the period.

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

	Three months ended 30 June		Six months ended 30 June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Sales of goods	1,897	8,202	5,778	12,999
Training fee	1,138	1,083	2,663	2,169
CG creation and production income	1,042	–	1,094	–
Rental income from equipment leasing	15	–	247	–
Franchise fee from digital cinema for use of equipment	–	85	19	123
Technical service income	478	–	519	–
	4,570	9,370	10,320	15,291

4. SEGMENT INFORMATION

Business segments

The Group's primary format for reporting segment information is business segments. The Group is currently organised into three operating divisions – CG creation and production, digital content distribution and exhibitions and the provision of CG training courses.

Segment information about these businesses is presented below:

Six months ended 30 June 2005					
	CG creation and production HK\$'000 (Unaudited)	Digital content distribution and exhibitions HK\$'000 (Unaudited)	CG training courses HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)	
Turnover					
External	1,094	6,563	2,663	10,320	
Result					
Segment result	(10,320)	(5,168)	(84)	(15,572)	
Unallocated corporate expenses				(1,700)	
Loss from operations				(17,272)	
Finance costs				(3,443)	
Loss before income tax				(20,715)	
Income tax expense				(360)	
Net loss for the period				(21,075)	
Six months ended 30 June 2004					
	CG creation and production HK\$'000 (Unaudited)	Digital content distribution and exhibitions HK\$'000 (Unaudited)	CG training courses HK\$'000 (Unaudited)	Corporate HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Turnover					
External	–	13,122	2,169	–	15,291
Result					
Segment results	(3,722)	(4,534)	(3,847)		(12,103)
Unallocated corporate expenses					(5,009)
Loss from operations					(17,112)
Finance costs					(2,182)
Net loss for the period					(19,294)

5. INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
The income tax expense comprises:				
Current tax	-	-	-	-
Deferred tax				
– Current period	360	-	360	-
	360	-	360	-

No provision for Hong Kong Profits Tax has been made in the financial statements for both periods as the Group had no assessable profit arising in Hong Kong.

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

6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share for the three months and the six months ended 30 June 2005 are based on the net loss for the period of approximately HK\$14,038,000 and HK\$21,075,000 respectively (2004: HK\$9,037,000 and HK\$19,294,000) and the weighted average of 800,820,000 shares (2004: 790,753,187 shares and 785,376,593 shares respectively) in issue during the period.

No diluted loss per share has been calculated for the period ended 30 June 2005 as the exercise of the share options before their cancellations would result in a decrease in the loss per share. Diluted loss per share was not presented for the period ended 30 June 2004 because there was no potential ordinary shares in existence for that period.

8. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000 (Unaudited)
Net book value as at 1 January 2005	14,000
Additions	266
Disposals	(1)
Depreciation	(4,048)
Net book value as at 30 June 2005	10,217

9. PRODUCTION WORK IN PROGRESS

	<i>Notes</i>	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
Movie, net of allowance of approximately HK\$70,000,000 (2004: HK\$70,000,000)	(i)	27,114	20,340
Television series, net of allowance of approximately HK\$14,615,000 (2004: HK\$14,615,000)	(ii)	-	-
Others		-	961
		27,114	21,301

Notes:

- (i) The amount represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Film"), a movie project currently under production by the Group. Having regard to the latest production status of the Film, projected sales estimated by the Group's sales agents and the uncertainty in finalising distribution/licence agreements among the potential markets on a timely basis, the directors considered an allowance of approximately HK\$70,000,000 (2004: HK\$70,000,000) is adequate and in their opinion that the production costs incurred as at 30 June 2005, net of allowance, are fully recoverable.
- (ii) The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As disclosed in the annual report of the Company for the year ended 31 December 2004, there was a litigation in relation to the co-production of the TV Series, the directors considered recoverability in these circumstance for the production costs already incurred and a full allowance of approximately HK\$14,615,000 was made.

10. TRADE RECEIVABLES

The Group allows an average different credit periods to its trade customers depending on the type of products or services provided. The majority of sales of goods are on letter of credit against payment, the remaining amounts are granted with average credit terms of 90 days.

The following is an aged analysis of the trade receivables at the reporting date:

	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
Within three months	1,729	16,545
Three to six months	2,139	1,070
Over six months	506	396
	4,374	18,011

11. TRADE PAYABLES

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

	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
Within three months	1,457	10,257
Three to six months	1,384	744
Over six months	859	17
	3,700	11,018

12. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2005 and 30 June 2005	1,200,000,000	12,000
Issued and fully paid:		
At 1 January 2005 and 30 June 2005	800,820,000	8,008

13. CONTINGENT LIABILITIES

The Company has given guarantees to banks and other parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 30 June 2005 amounted to approximately HK\$36.9 million (2004: HK\$38.1 million).

14. LITIGATION

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

In November 2004, PPM issued a summons for summary judgment against WAMC and GDC Entertainment in the Court of Commerce of Angouleme (France), seeking the appointment of an agent who would oversee the co-production.

A hearing was scheduled to take place on 11 January 2005. However, at that time, PPM modified its claims against GDC Entertainment by seeking to substitute a new producer of the "same nationality" in replacement of GDC Entertainment pursuant to the Co-production Agreement, or the appointment of an expert whose task would be basically to assess the parties respective liabilities.

On 13 January 2005, the Group was informed by its French legal advisers that PPM's new claims do not affect accrued rights, as even if the Group were substituted, the monies invested by the Group are recoverable as an account payable under the co-production.

However, on 14 February 2005, PPM further modified its claims which include, inter-alia (i) the enforcement of an article of the Co-production Agreement which provides that in case of substitution of a producer to another one, the monies already invested by the Group shall become an account payable, recoverable from the revenues of the co-production, however, only "in last position with the recovery by the other co-producers of their contribution", and (ii) that the Group be sentenced to pay PPM the provisional amount of Euro 5 million, as damages, this amount being subject to revision according to the findings of the expert to be appointed by the Court. The claim for damages is totally unparticularised.

On 10 March 2005, the Group's French legal adviser advised that the chances to recoup the totality of the investment are uncertain and in any event, the sums owed to GDC Entertainment will be recoupable only in the last position pursuant to the Co-production Agreement.

On 15 March 2005, the French legal adviser advised that the claims by PPM for the aforesaid provisional amount of Euro 5 million, as damages, is out of touch with reality given that (i) PPM does not provide any explanation or detail computation for the claims of Euro 5 million (ii) the amount is more or less equals to the total budgeted costs under the Co-production Agreement and (iii) the claim is still subject to the summary judgment to be rendered. The legal adviser further advised that in any event, the summary judgment to be rendered shall be very difficult to enforce or even may not be enforceable. Based on the abovementioned legal advice, the Board considers that the claims of Euro 5 million as damages should not have any immediate effect on the Group and no provision for this amount is considered necessary. Consideration is also being given by the directors to launch a counterclaim against PPM in the Hong Kong courts. The Group's Hong Kong legal advisor have advised that the Group have good and meritorious causes of action against PPM and pursuant to the agreement an application has been made to the Hong Kong International Arbitration Centre for arbitration. As soon as the arbitrator is appointed, a claim will be filed.

15. COMMITMENT

As at 30 June 2005, the Company had commitment for advertising expenditure of approximately HK\$470,000 (S\$100,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Turnover of the Group for the three months and the six months ended 30 June 2005 were approximately HK\$4.6 million and HK\$10.3 million which, when compared with the turnover of approximately HK\$9.4 million and HK\$15.3 million for the three months and the six months ended 30 June 2004, represented a decrease of approximately 51% and 33% respectively.

The decrease in turnover is mainly due to the decrease in sales of digital cinema equipment as a result of a relatively less sales orders have been placed than the original plan by the Group's one major Indian customer and other exhibitors in the regions during the period under review.

The disappointing turnover was mainly due to the unfavourable business environment largely generated from markets uncertainty. The overriding issues and concerns among our potential customers are the finalization of digital cinema specifications from Digital Cinema Initiative ("DCI") and the upgradeability/compatibility with the existing GDC Servers. Many cinema owners are adopting a "wait and see" approach, particularly waiting for Hollywood where an imminent roll out is expected towards end of the year. The several funding/seeding initiatives by our competitors such as Avica, EVS/XDC and Real Image have also affected our sales efforts.

However, income generated from CG creation and production was partly compensated the decrease in turnover. In addition, the contribution from increment in income from training fee by approximately 23% was also offset the impact on the decrease in sales of digital cinema equipment.

Following the support by the Shanghai Government in January 2005, an outstanding rental expense totaled approximately HK\$3.4 million due to a landlord in respect of the office of a subsidiary, Institute of Digital Media Technology (Shanghai) Limited ("IDMT (SH)"), in Shanghai was paid and settled by the Shanghai Government on behalf of IDMT (SH). As a result, the Group recorded it as a rental expense written back in the income statement during the period under review.

Distribution costs for the six months ended 30 June 2005 totaled approximately HK\$1.6 million (2004: HK\$2.2 million). The decrease in the distribution costs was in line with the decrease in sale.

Administrative expenses for the six months ended 30 June 2005 totaled approximately HK\$17.7 million (2004: HK\$18.7 million), was decreased by approximately 5%. The decrease in the administrative expenses was attributable to the improvement in cost control by the Group.

Finance costs for the six months ended 30 June 2005 totaled HK\$3.4 million, which represented mainly the interest costs for the two bank loans denominated in Renminbi, finance costs for computer equipment leasing and interest cost for loans from a fellow subsidiary, SCG Finance Corporation Limited ("SCG Finance") (2004: HK\$2.2 million). The increase in finance costs was mainly due to the loans from SCG Finance which were raised starting from November 2004.

Overall, the Group incurred a net loss of HK\$21.1 million for the six months to 30 June 2005, as compared with the net loss of HK\$19.3 million incurred in same period of last year.

BUSINESS REVIEW

The Company is progressing steadily from development stage to commercialization stage. Turnover were generated from CG creation and production, the digital content distribution and exhibition business which comprised sales revenue of D-cinema products, training fee from CG training course, rental income from equipment leasing, franchise fee from digital cinema, and technical service income.

CG creation and production

During the 10-day launching of Group's film "*Thru the Moebius Strip*" (the "Film") at the Cannes Film Festival in May 2004 and later in November 2004 at the American Film Market, over 100 distributors from all over the world attended the sales screening organized by the Film's sales agent. Currently, the Film is in the final stages of delivery, post production work having been completed in Australia, under the supervision of Mr. Steven D. Katz. By the end of August 2005, all elements will have been delivered. This includes the Film and electronic formats required for theatrical, television and digital cinema releases. On 19 August 2005, a major screening will be held for buyers in Los Angeles to help stimulate interest by U.S. buyers. There have already been discussions underway with two studios in Hollywood for a US domestic release. Also, a Japanese buyer has also shown strong interest in buying the Film shortly. While the Film is being sold worldwide, the Group is engaged in production of work-for-hire jobs, including TV series, games and commercials. The clients of these work-for-hire jobs are mainly from the U.S. and Europe. These jobs are anticipated to bring substantial income to the Group. Through its sales effort in the world market, a few more co-production projects and work-for-hire projects, including two TV series and one feature film, are under business discussion. Tests for these products have been completed. The Group expects to start production of one of these projects later this year. If these projects are secured, it will bring steady income to the Group.

In the first half of 2005, the Group enhanced its marketing effort in both international and China domestic market. In April, the Group made its appearance at Tokyo International Anime Fair and attracted Japanese companies to its presentation. Some Japanese companies have shown their interest in investing for co-production of Chinese content. The Group has also presented its best work and two of its new creations for TV series for China market at domestic exhibitions in Dalian and Hangzhou in July and established its position as the strongest digital content provider in China. The marketing effort has attracted potential clients and government support as the leading company in the industry. Potential investors are looking at the Company's new creations and will talk with the Group to further develop them. Through domestic marketing, the Group has attracted the attention of well-known local companies including Tancen, one of the biggest game operators in China, and Haier. The Group has started production for one of Tancen's game projects. Domestic business deals are likely increase in the second half of the year.

Digital content distribution and exhibition

For the second quarter of 2005, GDC Technology Group achieved a turnover of approximately HK\$2 million, which, when compared with the turnover of the Group for the six months ended 30 June 2004 of approximately HK\$8 million, represented a decrease of approximately 75%. The decrease in turnover was due to the lack of order from our major Indian customer – Mukta Adlabs Digital Exhibition Limited (“Adlabs”) and other key customers in China, Singapore and US. Adlabs has temporarily stopped placing order of new servers until the completion of the upgrade of digital projector from a single chip to 3-chip DLP projector.

In June 2005, first-time feature director, Han Yew Kwang’s film premiered at the Shanghai International Film Festival on the GDC Technology’s DSR format. This digital feature, titled Unarmed Combat was a project of Singapore’s Film Incubator Programme, and is presented by the Digital Media Academy and Singapore Film Commission, in association with Mega Media. In the same month, GDC Technology participated at BroadcastAsia 2005 Exhibition in Singapore. In an early test of Digital Cinema Initiative standards, GDC Technology successfully participated in the satellite transmission of a feature film packaged as an MXF file from the United States to Singapore. The Cross Continent Digital Content Transmission or CCTx project is also spearheaded by the IDA and by the Singapore Infocomm Technology Federation, Digital Media Chapter. The CCTx project aims to develop a viable worldwide digital distribution model that can be commercialized in addition to establishing a secure and seamless digital delivery of content to digital cinema theatres in Asia. Worldwide digital cinema theatres equipped with GDC Technology’s DSR(TM) SA1000 Digital Film Servers are the first to be upgraded to MXF which is adopted by the Digital Cinema Initiatives (DCI). GDC Technology once again leads the industry by remotely upgrading most of the servers deployed in the field to MXF while maintaining backward compatible with GDC Technology’s proprietary DSR(TM) format.

GDC Technology is pleased to be the digital cinema server of choice for India’s up market multiplex – Sathyam Cinemas. Two of the screens in Sathyam Cinemas – “Sathyam” and “Sree” have now been equipped digitally with DLP Cinema™ projectors. Both screens have been installed with GDC Technology’s flagship product – DSR™ Digital Film Server SA1000. Sathyam Cinemas is the first commercial digital cinema in India to screen a Hollywood feature film; Star Wars Episode III – Revenge of the Sith was premiere at Sathyam Cinemas on 19 May. In May 2005, GDC Technology’s DSR(TM) Digital Film Server SA1000 was also selected by Hong Kong’s first permanent digital cinema theatre at Broadway Cyberport Cinema.

CG training

The Group’s training activities in Mainland China continue to attract talented artists and the attractive cost structure of the Group’s computer animation studio combined with the quality of its work will form a formidable platform for a partnership with international strategic partners.

The Group continued to record revenue from the CG training course in Shenzhen and Shanghai, the PRC, which are operating in co-operation with Shenzhen University and University of Shanghai for Science and Technology respectively. Turnover from CG training increased by approximately 23% for the period ended 30 June 2005, represented approximately 26% of the Group's turnover during the period under review. The increase was mainly attributable to the expansion of the Group's CG training center in Shanghai in terms of the number of the students served and courses offered during the period review.

By 30 June 2005, the training center in Shenzhen has already run 5 training courses, 136 students of the fifth CG training course in Shenzhen graduated on 31 May. Shanghai training center also had held 5 courses so far. The second and third CG courses were successfully finished in Shanghai in the period ended 30 June 2005.

Liquidity and financial resources

The Group had bank balances and cash and pledged bank deposits of approximately HK\$7 million as at 30 June 2005 (2004: HK\$5.6 million) which were mainly denominated in Hong Kong dollars and Renminbi. The decrease was mainly utilized in funding the current year's loss making operations.

The Group's borrowings amounted to approximately HK\$107 million as at 30 June 2005 which comprised approximately HK\$88 million and HK\$19 million repayable within one year and repayable more than one year as at 30 June 2005 respectively. There was no gearing ratio (calculated as bank and other borrowings less bank balances and cash and pledged bank deposits divided by shareholders' fund) presented as the Group recorded capital deficiency as at 30 June 2005.

Transactions of the Group were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. In view of the stability of the exchange rate of those currencies, no hedging for the foreign currency transaction had been carried out during the year under review.

Capital structure

As at 30 June 2005, the Group recorded capital deficiency of approximately HK\$74.6 million (2004: HK\$53.6 million) which was mainly financed by internal resources, bank and other borrowings. The increase in capital deficiency was mainly arisen from the loss of approximately HK\$21.1 million incurred during the year under review.

Material acquisition, disposals and significant investment

The Group had no material acquisitions, disposals and investment during the six months ended 30 June 2005.

Charge on assets

As at 30 June 2005, pledged bank deposits and computer equipment and motor vehicles with carrying value of approximately HK\$2 million and HK\$3.1 million respectively and the Group's entire interests in the registered capital of IDMT (Shenzhen) Limited, a wholly-owned subsidiary of the Group, were pledged to certain financial institutions to secured certain financing facilities granted to the Group.

Foreign exchange exposure

Currently, the Group mainly earns revenue and incurs costs in Renminbi, Hong Kong dollars and US dollars. The directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group has not used any type of derivatives to hedge against any foreign currency fluctuations.

Contingent liabilities

The Company has given guarantees to banks and other parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2004 amounted to approximately HK\$36.9 million (2004: HK\$38.1 million).

Employees

As at 30 June 2005, the Group employed 315 (2004: 339) full time employees. 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.

OUTLOOK**CG creation and production**

Currently, the Film is in the final stage of delivery. By the end of August, all elements will have been delivered. This includes the film and electronic formats required for theatrical, television and digital cinema releases. On 19 August, a major screening will be held for buyers in Los Angeles to help stimulate interest by U.S. buyers.

Pending the first sales of the movie in the third quarter, the Group will begin a public relations campaign along with the successful launch of the Film. This is an essential component of bringing about sales for the Group's production services in the US and establishing a new image for the company.

At the end of August, a plan for creating marketing materials for buyers will be underway and timed to support the public relations campaign. This will consist of demonstrating new work to potential partners and clients. In particular, the Group will begin to emphasize comedies work, the single biggest genre of animation. Following the model of Pixar and Blue Sky animation, the Group will use cost effective short animation as a marketing tool which will also help train the current staff in new styles of work.

The sales of production for service will continue. To secure the projects currently in discussion will be the main target in sales. These projects include one 26 TV series as co-production, 2/3 of the production cost will be paid in cash (approximately USD1.5 million) and 1/3 compensated by rights for China or other territories.

Production for a couple feature films are also under discussion. Although it is still early to foresee and result yet, but possibility is there because the Film has demonstrated to the international market that the Group can produce quality animation work. The Group is the only company that can produce quality full feature length CGI film in the PRC. Producers from the US and Japan are looking at the Group as a potential partner in producing their new projects. The deal of any one of these features will bring the Group millions of US dollars.

Digital content distribution and exhibitions

From the recent publications of digital cinema activities from mainstream magazines, the industry believes that the digital cinema roll out will likely to take place in the first quarter of 2006.

There are also emerging companies to play the third-party role in digital cinema business model and these players facilitate the roll out of digital cinema theatres similar to the Company's digital cinema franchise business model as disclosed in the prospectus of the Company dated 23 July 2003 (the "Prospectus"). GDC Technology might therefore be marginalised, if substantial capital is not available for research and business development.

It is also believed that the digital cinema standard will be announced in third quarter of 2005 where the digital cinema server's specifications would be similar to GDC Technology's DSR™ SA1000 Digital Film Server with the exception of the compression technology. It is believed that JPEG2000 codec will be selected as the digital cinema compression standard instead of the current MPEG2 compression standard and in order to maintain its market share, GDC Technology requires to continue its product research and development.

Despite the uncertainty in market, GDC Technology continues to market its products through participation in trade exhibitions and high profile demonstration projects, and is retaining its position in the current depressed market. The Group believes that in the light of the Group current financial position, the best option is to either divert the Group of this business or to seek an investor.

CG training

As the fast growing of animation market in China, the needs of talented artists and skillful production engineers are continually increasing. Although the competition becomes more intensive, since many animation production firms entered the CG training market, but the competitive advantage of the Group is still significant.

Currently the CG trainings are mainly provided in Shenzhen and Shanghai. But to increase revenue in a short period of time, the company is planning to extend its presence in several other cities. According to the plan, the company will work with selected partners and set up 4 to 8 authorized training centers by the end of 2005.

To secure our leading position on CG training, the company is working on developing more training courses. With the expansion on geographic coverage and more attractive high quality training courses offered, the company is confidence to achieve major increase on turnover from CG training.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business objectives from the Latest Practical Date to 31 December 2003 as stated in the Prospectus (only limited to those which have not been fulfilled in full as stated in the annual report of the Company for each of the financial year ended 31 December 2003 and 2004)	Actual business progress
CG creation and production	<ol style="list-style-type: none"> 1. Complete <i>Thru the Moebius Strip</i> production and premiere. 2. Sign up a US distributor for <i>Thru the Moebius Strip</i>. 3. Pre-sell <i>Thru the Moebius Strip</i> to markets other than the US. 4. Set up a merchandising arm and begin licensing of merchandise in the PRC market and other target markets. 	<ol style="list-style-type: none"> 1. The production of <i>Thru the Moebius Strip</i> was completed in May 2004 and was officially launched in the Cannes Film Festival in the same month. 2. GDC entered into a sales agency agreement (which was terminated in the second half of 2004) with Senator International Inc. in respect of the distribution of <i>Thru the Moebius Strip</i> in the US. GDC also received offers for distribution of <i>Thru the Moebius Strip</i> in the US. 3. GDC pre-sold <i>Thru the Moebius Strip</i> to 7 markets other than the US. GDC also received offers from distributors from the rest of the world. 4. GDC set up a merchandising arm and started to license its products in PRC and other target markets in 2004.

Business objectives from the Latest Practical Date to 31 December 2003 as stated in the Prospectus (only limited to those which have not been fulfilled in full as stated in the annual report of the Company for each of the financial year ended 31 December 2003 and 2004)

Actual business progress

- | | | | |
|-----|--|-----|--|
| 5. | Begin development of prototype of <i>Thru the Moebius Strip</i> and <i>Sandman</i> console games in the US with Equinox. | 5. | GDC commenced the development of <i>Thru the Moebius Strip</i> game in house with other partners including Gameone Online Entertainment Group Limited ("Gameone"). |
| 6. | Publish the first issue of CG, games and digital cinema print and e-magazine. | 6. | Instead of publishing the print version of CG, games and e-magazine, GDC started an online forum in relation to these topics. In addition, GDC published three textbooks relating CG in PRC. |
| 7. | Finalise the appointment of Overseas Chinese Town as merchandising agent of GDC in the PRC. | 7. | Overseas Chinese Town was appointed as the merchandising agent of GDC in PRC. |
| 8. | Begin pre-production of sequel to <i>Thru the Moebius Strip</i> . | 8. | Not yet begun. |
| 9. | Issue first comic based on <i>Thru the Moebius Strip</i> . | 9. | Not yet begun. |
| 10. | Begin development of next online game and localization of Korean and Japanese games. | 10. | GDC set up a joint venture with Gameone to develop its next online game to be released in the third quarter of 2005. |

**Business objectives from
1 January 2004 to 30 June 2004
as stated in the
Prospectus (only limited to
those which have not been
fulfilled in full as stated in the
annual report of the Company for
the financial year ended
31 December 2004)**

Actual business progress

**CG creation and
production**

- | | | | |
|----|---|----|---|
| 1. | Launch localized Korean and Japanese on-line games in Greater China market. | 1. | Not yet launched. |
| 2. | Complete development of <i>Thru the Moebius Strip</i> and <i>Sandman</i> console games for publisher. | 2. | GDC commenced the development of <i>Thru the Moebius Strip</i> game in house with other partners including Gameone. |
| 3. | Begin development of next prototypes. | 3. | Have developed two sets of prototypes for TV series. |
| 4. | Market DVDs for <i>Thru the Moebius Strip</i> . | 4. | The deal is in discussion. |
| 5. | Complete <i>The New Adventures of Raggedy Ann & Andy series</i> and begin work on next series. | 5. | WAWC did not have the rights of this series and therefore GDC decided not to pursue on development of this series. |
| 6. | Begin production of sequel of <i>Thru the Moebius Strip</i> . | 6. | Not yet commenced. |

**Business objectives from
1 January 2004 to 30 June 2004
as stated in the
Prospectus (only limited to
those which have not been
fulfilled in full as stated in the
annual report of the Company for
the financial year ended
31 December 2004)**

**Digital content
distribution and
exhibitions**

1. Further supply digital cinema equipment to Adlabs.

Actual business progress

1. Mukta Adlabs Digital Exhibition Limited ("Adlabs") did not meet the target of installing 400 servers for the year ended Y2004. Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Mukta Adlabs for the order of new servers.

On the other hand, GDC Technology expanded its market share in India by reprofiting 5 cinemas in Southern India with GDC Technology's digital servers in 2004.

**Business objectives from
1 January 2004 to 30 June 2004
as stated in the
Prospectus (only limited to
those which have not been
fulfilled in full as stated in the
annual report of the Company for
the financial year ended
31 December 2004)**

Actual business progress

- | | |
|--|---|
| 2. Sign up around 80 digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong. | 2. The launch of further D-cinemas under the franchise model is currently delayed. |
| 3. Continue with research and development for interactive digital cinema. | 3. GDC Technology continues some R&D programs that do not require substantial funding. Currently, GDC Technology does not carry out capital intensive R&D such as FPGA implementation of JPEG2000 codec and interactive digital cinema systems. |

**Business objectives from
1 July 2004 to 31
December 2004 as stated in the
Prospectus (only limited to
those which have not been
fulfilled in full as stated in the
annual report of the Company for
the financial year ended
31 December 2004)**

Actual business progress

**CG creation and
production**

- | | | | |
|----|--|----|--------------------|
| 1. | Complete production of first part of sequel to <i>Thru the Moebius Strip</i> . | 1. | Not yet commenced. |
| 2. | Launch further on-line games in Greater China market. | 2. | Not yet launched. |
| 3. | Begin pre-production of next film. | 3. | Not yet begun. |

**Digital content
distribution and
exhibitions**

- | | | | |
|----|--|----|---|
| 1. | Further supply digital cinema equipment to Adlabs. | 1. | Mukta Adlabs Digital Exhibition Limited ("Adlabs") did not meet the target of installing 400 servers for the year ended Y2004. Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Adlabs for the order of new servers. |
|----|--|----|---|

On the other hand, GDC Technology expanded its market share in India by reprofiting 5 cinemas in Southern India with GDC Technology's digital servers in 2004.

**Business objectives from
1 July 2004 to 31
December 2004 as stated in the
Prospectus (only limited to
those which have not been
fulfilled in full as stated in the
annual report of the Company for
the financial year ended
31 December 2004)**

2. Sign up further digital cinemas to reach a total of around 150 in the PRC and around 100 in rest of Asia, such as Singapore and Hong Kong.
3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).

Actual business progress

2. The launch of further D-cinemas under the franchise model is currently delayed.
3. GDC Technology continues some R&D programs that do not require substantial funding. Currently, GDC Technology does not carry out capital intensive R&D such as FPGA implementation of JPEG2000 codec and interactive digital cinema systems.

**Business objectives from
1 January 2005 to 30 June 2005
as stated in the Prospectus**

Actual business progress

**CG creation and
production**

- | | | | |
|----|---|----|--------------------------|
| 1. | Market DVDs for sequel of <i>Thru the Moebius Strip</i> . | 1. | Not yet commenced. |
| 2. | Complete second Japan film. | 2. | No substantial progress. |
| 3. | Begin prototype for next console game. | 3. | No substantial progress. |
| 4. | Launch further on-line games in Greater China. | 4. | No substantial progress. |
| 5. | Begin production in next film project. | 5. | No substantial progress. |

**Digital content
distribution and
exhibitions**

- | | | | |
|----|--|----|--|
| 1. | Further supply digital cinema equipment to Adlabs. | 1. | Mukta Adlabs Digital Exhibition Limited ("Adlabs") did not meet the target of installing 400 servers for the year ended Y2004. Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Adlabs for the order of new servers. However, GDC Technology also expanded its market share in India by retrofitting more than 10 cinemas in South India with GDC Technology's digital servers. |
|----|--|----|--|

**Business objectives from
1 January 2005 to 30 June 2005
as stated in the Prospectus**

2. Sign up further digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong, to reach total of around 250 and 120 respectively.
3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).

Actual business progress

2. The launch of further D-cinemas under the franchise model is currently delayed.
3. GDC Technology continues some R&D programs that do not require substantial funding. Currently, GDC Technology does not carry out capital intensive R&D such as FPGA implementation of JPEG2000 codec and interactive digital cinema systems.

**Provision of CG
training courses**

1. Continue to run the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai, the PRC.

1. 136 students of the 5th CG training course in Shenzhen graduated on 31 May. The 2nd and 3rd CG courses in Shanghai were also successfully finished.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Directors had explained the reasons for the changes in the application of the net proceeds (the "IPO Proceeds") raised from the listing of the shares of the Company on GEM of the Stock Exchange in August 2003 (the "Listing") and in the "Statement of business objectives" in an announcement made by the Company dated 26 February 2004 (the "February Announcement") and 19 August 2004 and the Directors would like to set out below the reasons, as required by the GEM Listing Rules.

The net amount of the IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK\$53.3 million. A comparison of the proposed usage of IPO Proceeds made in the Prospectus and subsequently in the February Announcement against the actual usage for the six months ended 30 June 2005 is set out as follows.

Application of proceeds	Amounts utilised up to 31 December		Proposed usage as stated in the February Announcement <i>(Note 1)</i> <i>(Approximate HK\$ million)</i>	Adjusted proposed usage <i>(Note 2)</i>	Actual amounts utilised up to 30 June 2005	Difference <i>(Note 3)</i>
	Proposed usage as stated in the Prospectus	2003 as stated in the February Announcement				
Strengthening management and international marketing team	4.9	3.3	-	3.3	12.4	9.1
Developing digital cinema distribution network	27.7	3.1	13.8	16.9	20.5	3.6
Research and development of digital cinema technologies	12.6	2.4	5.5	7.9	12.2	4.3
Production maintenance and co-financing	5.6	20.9	1.2	22.1	59.6	37.5
Working capital	2.5	3.1	-	3.1	12.8	9.7
Total	53.3	32.8	20.5	53.3	117.5	64.2

Notes:

1. The proposed usage as stated in the February Announcement was based on the remaining portion of the IPO Proceeds available to the Group (approximately HK\$20.5 million) at the time of the making of the February Announcement to complete the business objectives of the Group from the date of the February Announcement to 31 December 2005.
2. The adjusted proposed usage is calculated based on the amounts utilised up to 31 December 2003 as stated in the February Announcement and the proposed usage as stated in February Announcement for the purpose of presenting the proposed usage of the IPO Proceeds upon publication of the February Announcement.
3. The difference between the actual amounts being utilised by the Group up to 30 June 2005 and the adjusted proposed usage of the IPO Proceeds upon publication of the February Announcement.

Reasons for the change of application of the IPO Proceeds (adjusted as mentioned above) in developing digital cinema distribution network

Since the publication of the Prospectus, the directors experienced certain changes in the market conditions brought about by technological advancement in the D-cinema marketplace. As stated in the section headed "Statement of business objectives" in the Prospectus, the Group had, under the franchise business model, originally targeted the signing up to around 350 digital cinemas in the PRC and around 150 in the rest of Asia respectively for the supply of digital projection and playback equipment by the end of 30 June 2005. The change in the amount spent on developing digital cinema distribution network was due to the Group's delay in the implementation of the franchise business model for D-cinemas in the PRC and the rest of Asia for the reasons set forth below.

The franchise model for D-cinema was based on the use of projectors which carry the technical standard approved by the Hollywood major film distributors. The digital distribution of major films, however, did not accelerate as anticipated but instead, DCI decided in the third quarter of 2003, to raise the bar of D-cinema standard to a resolution of 2K (which requires a projector at the resolution of 1,080 x 2,048 lines). Although the Group's product has already been upgraded to the 2K resolution standard in the third quarter of 2003, projector manufacturers of 2K digital light processor ("DLP") Cinema™ projectors (which is a component in the Group's product, DSR™ servers), could only produce small quantities of the 2K DLP Cinema™ projectors with resolution standard.

The Group had consequently concentrated its efforts in the sales of its products to India, which does not require such high resolution standard, and the rest of the world rather than waiting for the 2K projectors to become available. For the above reasons, the targets as stated in the sector headed "Statement of business objectives" of the Prospectus had to be altered.

Reasons for the change of application of the IPO Proceeds (adjusted as mentioned above) in production maintenance and co-financing

At the time of Listing, the Directors expected that pre-sale contracts for certain countries/territories in respect of the distribution rights of the Film would have been concluded and completed by 31 December 2003, bringing pre-sale proceeds to finance the production. The increase in the spending on production maintenance and co-financing was due to the delay in the completion of the Film. As a result, the marketing and screening of the Film had to be delayed which had consequently affected the timing for the pre-sale of the Film. As set out in the announcement of the Company dated 19 August 2004, the Directors reported that all the production work of the Film had been completed, and intensive marketing of the Film was taking place in the US.

Since the pre-sale revenue of the Film did not materialise in late 2004, the Company had utilised additional cash resources from the IPO Proceeds (which would have been substantially financed from the pre-sale proceeds of the Film) to, inter alia, complete the Film.

Financing of the difference of the actual amounts utilised up to 30 June 2005 and the IPO Proceeds

As mentioned above, the net amount of the IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK\$53.3 million. Further, as disclosed in the announcement of the Company dated 19 August 2004, the IPO Proceeds have been fully utilised. The Group utilised a total funding of approximately HK\$117.5 million from the period of the listing of the shares of the Company in August 2003 up to 30 June 2005, therefore exceeded the adjusted proposed usage of IPO Proceeds by approximately HK\$64.2 million. The Group financed such additional applications by, among others, (i) the placing of shares of the Company as disclosed in the announcement of the Company dated 5 May 2004; (ii) the unsecured loans provided by Mr. Anthony Francis Neoh (Joint chairman and non-executive Director); and (iii) the unsecured loans provided by SCG Finance Corporation Limited, a wholly-owned subsidiary of the major shareholder of the Company, SCG.

OTHER INFORMATION

Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures

As at 30 June 2005, the interests and short positions of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in Shares

Name of Director	Capacity	Number of Shares held	Percentage of interest
Mr. Raymond Dennis Neoh	Family interest	3,318,450	0.4%

Note: The 3,318,450 shares were held by Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh.

Save as disclosed above and the options holding under section headed "Share Options", as at 30 June 2005, none of the directors and the chief executive of the Company nor their associates had any interests and short positions in the shares, underlying shares and debentures of the Company and 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 Rule 5.46 of the GEM Listing Rules.

Directors' rights to acquire shares or debentures

Except for the share option scheme disclosed below, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share options

Sotas Options

On 5 June 2003, the Company granted a share option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 shares of the Company within 36 months from the date of the Listing at an aggregate exercise price of US\$600,000.

As at 30 June 2005, the share option to Sotas Limited had been cancelled.

Share option scheme

The Company by shareholders' resolution passed at its special general meeting held on 18 July 2003, has adopted a share option scheme ("Scheme"). The principal purpose of the Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contributions to the Group.

The following table discloses movements in the Company's share options during the period:

Name of Director	Date of grant	Exercise price HK\$	Number of share options				
			Balance as at 1.1.2005	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	Balance as at 30.6.2005
Dr. David Deng Wei	21.6.2004	0.44	8,000,000	-	-	8,000,000	-
Mr. Gordon Kwong Che Keung	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Professor Japhet Sebastian Law	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Mr. Stephen Scharf	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Total			14,300,000	-	-	14,300,000	-

Note: 14,300,000 share options could be exercised at any time during the period from 24 June 2004 to 17 July 2013. As at 30 June 2005, all of them had been cancelled.

Substantial shareholders

As at 30 June 2005, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Number of Shares held	Capacity	Approximate percentage of existing shareholding
Shougang Holding (Hong Kong) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Shougang Concord Grand (Group) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Upper Nice Assets Ltd.	658,466,023 (Note 1)	Beneficial Interest	82.22%
Sotas Limited	55,544,102 (Note 2)	Beneficial Interest	6.94%
Morningside CyberVentures	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Verrall Limited	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Mrs. Chan Tan Ching Fen	55,544,102 (Note 2)	Founder of a trust	6.94%

Notes:

- Upper Nice Assets Ltd. is an indirectly wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG") which is regarded to be held as to approximately 41% by Shougang Holding (Hong Kong) Limited as recorded under the register of SCG kept under Section 336 of the SFO. The interests held by Upper Nice Assets Ltd. are included in the interests held by both of SCG and Shougang Holding (Hong Kong) Limited.
- The 55,544,102 shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly-owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly-owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Mrs. Chan Tan Ching Fen, who was taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the Listing.

Save as disclosed above, as at 30 June 2005, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Competing interests

Forward Strategic Investments Limited, a former shareholder of the Company interested in approximately 5.02% of the share capital, held approximately 0.22% equity interest in DCDC Limited incorporated in the British Virgin Islands, which in turn held 100% equity interest in Digital Content Development Corporation Limited ("DCDC"), a company incorporated in Hong Kong, which is principally engaged in CG production in Hong Kong. Forward Strategic Investments Limited and its shareholders do not participate in the management of DCDC. Following the successful completion of voluntary conditional share exchange offer made by SCG in March 2005, SCG became the major shareholder of the Company, representing approximately 82.22% of the existing issued share capital of the Company. Forward Strategic Investments Limited ceased to be a shareholder of the Company. The director of Forward Strategic Investments Limited, namely Mr. Raymond Dennis Neoh, is also a Director of the Company, has confirmed that Forward Strategic Investments Limited will remain a passive investor in DCDC. The directors confirmed that there has not been and will not be any transactions between the Group and DCDC.

Save as disclosed above, none of the directors, the chief executive, substantial shareholders or initial management shareholders of the Company or any of its subsidiaries or any of their respective associates, has an interest in any business, which competes or may compete with the business of the Group.

Sponsor's interests

Pursuant to an agreement dated 23 July 2003 entered into between the Company and Asia Investment Capital Limited (now known as Goldbond Capital (Asia) Limited), Goldbond Capital (Asia) Limited acts as the Company's continuing sponsor until 31 December 2005.

As at 30 June 2005, neither Goldbond Capital (Asia) Limited nor its directors, employees or associates (as referred to under note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other members of the Group, or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

Corporate governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2005.

Code of conduct regarding securities transactions by directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions adopted by the Company during the six months ended 30 June 2005.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee comprises Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law (independent non-executive Directors), and Mr. Anthony Francis Neoh (non-executive Director).

The Group's unaudited consolidated results for the six months ended 30 June 2005 have been reviewed by the audit committee, which is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

By Order of the Board
Chen Zheng
Executive Director

Hong Kong, 12 August 2005

As at the date of this report, the Board comprised Mr. Anthony Francis Neoh and Mr. Cao Zhong (Joint chairmen and non-executive Directors); Mr. Raymond Dennis Neoh (Vice-chairman and executive Director); Dr. David Deng Wei (Vice-chairman and non-executive Director) and Mr. Chen Zheng (General manager and executive Director); Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Bu Fan Xiao (independent non-executive Directors).