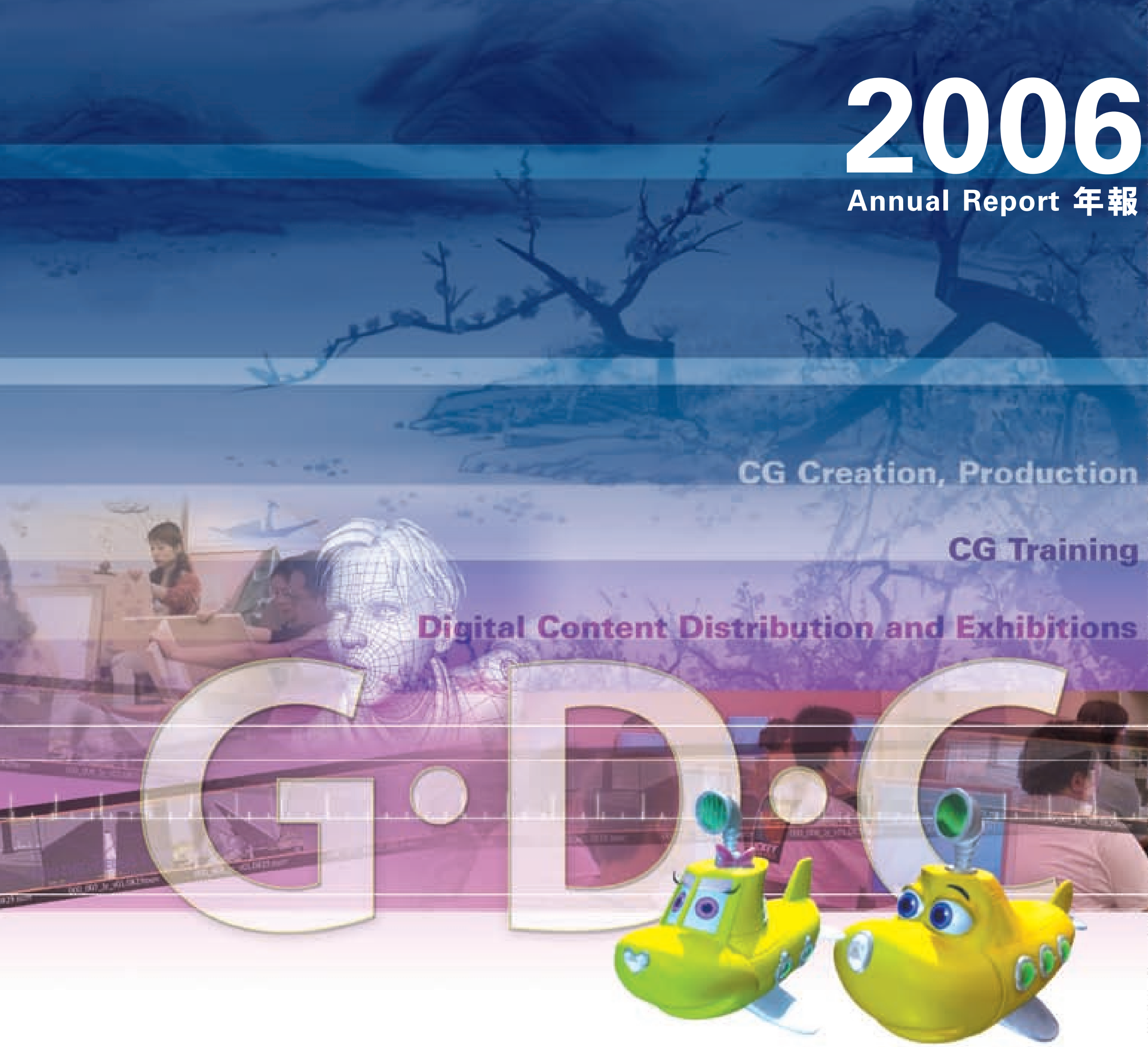
2006
Annual Report 年報



G·D·C HOLDINGS

Global Digital Creations Holdings Limited
環 球 數 碼 創 意 控 股 有 限 公 司*

(Incorporation in Bermuda with limited liability)
(於 百 慕 達 註 冊 成 立 之 有 限 公 司)

(Stock Code 股份代號:8271)

* For identification purpose only 僅供識別之用

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 of the Stock Exchange 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 (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.

Where the English and the Chinese texts conflict, the English text prevails.

Contents

Mission Statement

We are **the pioneers** in a **new technology** and **industry**.

There are many problems and difficulties in our way.

We will **conquer** and **overcome**.

We believe our future will rest on the people that we train and nurture today.

Together working as a team,

we will **build** and **lead the digital content development industry** in Asia.

Company Information

BOARD OF DIRECTORS

Executive Directors
Cao Zhong (Chairman)
Chen Zheng (Chief Executive Officer)
Jin Guo Ping (Vice President)
Xu Qing, Catherine (Vice President)

Non-executive Director
Leung Shun Sang, Tony

Independent Non-executive Directors
Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen

CHIEF FINANCIAL OFFICER & QUALIFIED ACCOUNTANT

Tsang Yu Tit

COMPLIANCE OFFICER

Chen Zheng

COMPANY SECRETARY

Foo Man Yee

AUDIT COMMITTEE

Kwong Che Keung, Gordon (Chairman)
Bu Fan Xiao
Hui Hung, Stephen

REMUNERATION COMMITTEE

Leung Shun Sang, Tony (Chairman)
Cao Zhong (Vice-Chairman)
Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen

NOMINATION COMMITTEE

Cao Zhong (Chairman)
Leung Shun Sang, Tony (Vice-Chairman)
Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen

AUTHORISED REPRESENTATIVES

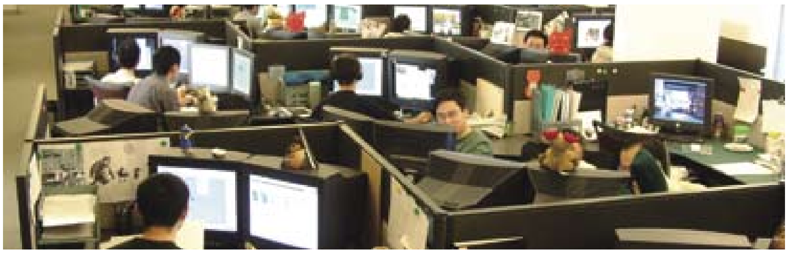
Chen Zheng
Xu Qing, Catherine

WEBSITE ADDRESS

http://www.gdc-world.com

STOCK CODE

8271



Company Information

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong Laws
Sidley Austin

As to Bermuda Laws
Conyers Dill & Pearman

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank

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

Standard Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Corporate Profile

Headquartered in Hong Kong, Global Digital Creations Holdings Limited, together with its subsidiaries, (hereinafter collectively referred to as the "Group" or "GDC") is one of the leading groups providing an integrated value chain in the digital distribution and content business which encompasses computer graphics ("CG") creation and production, distribution and exhibitions of digital content, and training of CG artists in the Asia Pacific region.

GDC has built a production pipeline in the city of Shenzhen in the People's Republic of China (the "PRC", which for the purpose of this annual report, does not include Hong Kong and Macau Special Administrative Regions and Taiwan) for the production of CG content for animated films, television ("TV") series and other CG applications. The Group is one of the largest CG production houses in China and even Asia. GDC has finished the production of the animated film "Thru the Moebius Strip", the animated short film "The Legend of Shangri-la" and various overseas animated series.

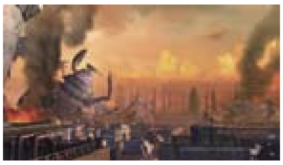
Leveraging its proprietary technologies in digital film processing, encryption, compression, storage, delivery and distribution, GDC developed a proprietary digital cinema solution. In 2002, the Group successfully used its proprietary DSR™ Digital Film Agile Encoder for the premiere of "The Missing Gun", the PRC's first digitally released film. The Group has, since early 2003, commercialised its digital cinema solution under the DSR™ range of equipment globally for supply to digital cinemas worldwide, thus becomes one of the leading digital cinema service providers in the world.

To secure a stable supply of CG creation and production staff for CG projects, GDC has organised CG training courses in Shenzhen in co-operation with Shenzhen University since year 2000 with over 2000 CG artists being trained. Currently, the Group's training network covers 6 major cities including Shenzhen, Shanghai, Beijing, Shenyang, Xi'an and Nanjing, and plans to extend to other cities throughout China.

Shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8271).

Significant Events in 2006

April 2006

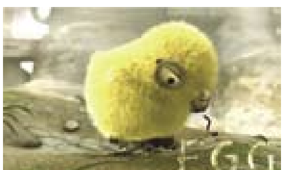


GDC won two awards in 2006 Chinese International Creative Animation Audio-visual Pieces "Handsome Monkey Award" Contest of the 2nd Chinese International Creative Animation Festival, of which "The Legend of Shangri-la" won the "Best Short Film Award", while "Home" was awarded the best commercial/ educational animation advertisement.

July 2006

At the Award Ceremony of the Digital Content Contest of the 8th "TBS Digicon6+2" held in Tokyo, the Group's entry "The Legend of Shangri-la" received unanimous recognition and was awarded a prize both domestically and abroad: the No. 1 in China Region and the Final Award.

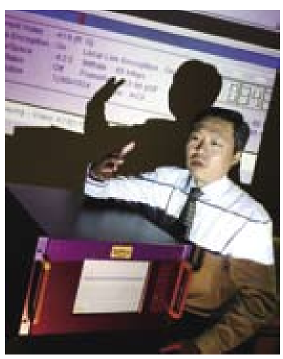
May 2006



"EGG", the dedicated effort of our students, received the bronze medal of the animation group in the Award Ceremony of "Aniwow! 2006", the 1st PRC (Beijing) International University Students' Animations Festival.

August 2006

GDC in collaboration with 華夏電影發行公司, released the CG movie "Thru the Moebius Strip" proprietarily developed by the Group



The Group completed the development of new generation of digital cinema servers that meet Hollywood requirements.

Significant Events in 2006

October 2006

The prize-winning results of the Animated Films Contest of the 3rd PRC Changzhou International Animation Arts Week were released during the Week concerned, whereby the Group's entry "The Legend of Shangri-la" was awarded the "Best Short Film Award" (2006 賽達大獎).

November 2006

Short film "The Legend of Shangri-la" was awarded the "Best Visual Effect Award" by Hong Kong 2006 Association of Information and Communications Technology.

The Group is the exclusive supplier of digital cinema solutions to a Hong Kong Listed Company

The Group delivered and installed more than 20 units of 3D capable digital cinema servers in 2006 with digital release of Hollywood blockbusters in 3D.

December 2006

The Group upgraded almost all the deployed servers in the field (except China) to the new Hollywood requirements – DCI JPEG2000 in 2006; to date more than 6 Hollywood blockbusters have been released in the new format.

In the Beijing Child Arts Textbook-based Drama Animations Contest "烏鴉和狐狸" and "促織" were respectively awarded the Second Grade Award and Special Encouragement Award.

Thru the Moebius Strip was chosen by the 2006 Digital Interactive Entertainment Industry of the Shanghai Information Industry Group Cup for the year.

Mr. Chen Zheng was elected as the first place winner of the China Creative Industry Top 10 Leaders award in 2006 and the Company was elected as the Leading Enterprise award of the Creative Industry in China in 2006.

CHAIRMAN'S STATEMENT

Chairman's Statement

If the year 2005 can be called the year of strategy setting for the group companies, the year 2006 is doubtlessly the year of execution with leap and bound progresses in all aspects of our businesses. During this year, the management of the Group has demonstrated their professional capabilities and dedications in each of their respective positions, and the synergetic results were apparent. The Board of Directors had also been thoroughly engaged to guide and help the management team by setting up for the Company comprehensive management incentive stock option plans, restructuring, engaging investors, and establishing partnership between the Group and influential government media entities.

I'm pleased to report that we have achieved revenue of the Group of approximately HK$54,920,000 this year. This represents 71% growth over that of the year 2005. Furthermore, two out of the three major businesses, the computer graphic ("CG") creation and production, and CG training businesses had reached operational cash flow breakeven.

In CG creation and production business, we have recorded approximately 519% revenue growth over the year 2005 by focusing on CG production service work for world class clients and successfully releasing the first 3D animation movie created in China – "Thru The Moebius Strip." Business in this area has also achieved operational cash flow breakeven in the first time in our group history. Through its high quality work with Hollywood award winning studios, the awards our original creative contents had received in international competitions, and its efficient production management system, our CG creation and production studio in Shenzhen is recognised by the industry as the largest and most advanced CG creation and production house in China, and one of the best in Asia.

In CG training business, we had achieved approximately 26% revenue growth over the year 2005 without significant additional resources or investment. This is mainly resulted from higher utilisation of our training staff through higher enrollment per class. Our CG training division has maintained its industry reputation as the most comprehensive and most effective CG professional training program evidenced by 100% employment of the graduates within three months of graduation.

Chairman's Statement

In digital content distribution and exhibitions business, although we had a decrease of 23% in revenue, this is largely due to the slight delay in the rolling out of our new products. However, in the last quarter of this year, we had successfully released new products in compliance with the new industrial technical standard, and received purchase order immediate after products' releases. Owing to our strength in R&D, the less than expected sales performance did not deter world class investors who are original in their investment philosophies. Subsequent to 31 December 2006, we received approximately US$6.5 million, or equivalent to approximately HK$50 million, investment dedicated to develop this business. The infusion of this fund will speed up the progress of the R&D works and enable our digital content distribution and exhibitions to harness the hyper growth in worldwide markets.

Another monumental development in our digital content distribution and exhibitions business is that we had reached an agreement with China Film Group Corporation, one of the Chinese government appointed entities to regulate and manage all aspects of movie distribution in China, to roll out digital cinema equipment to top box office revenue generating screens in China. This arrangement will make us the de facto provider for digital cinema solutions and services in China.

Our execution results had attracted world class investors' interest in the Group, and as a result, we have received investment from investors for the Company in additional to his investment in our digital content distribution and exhibitions business.

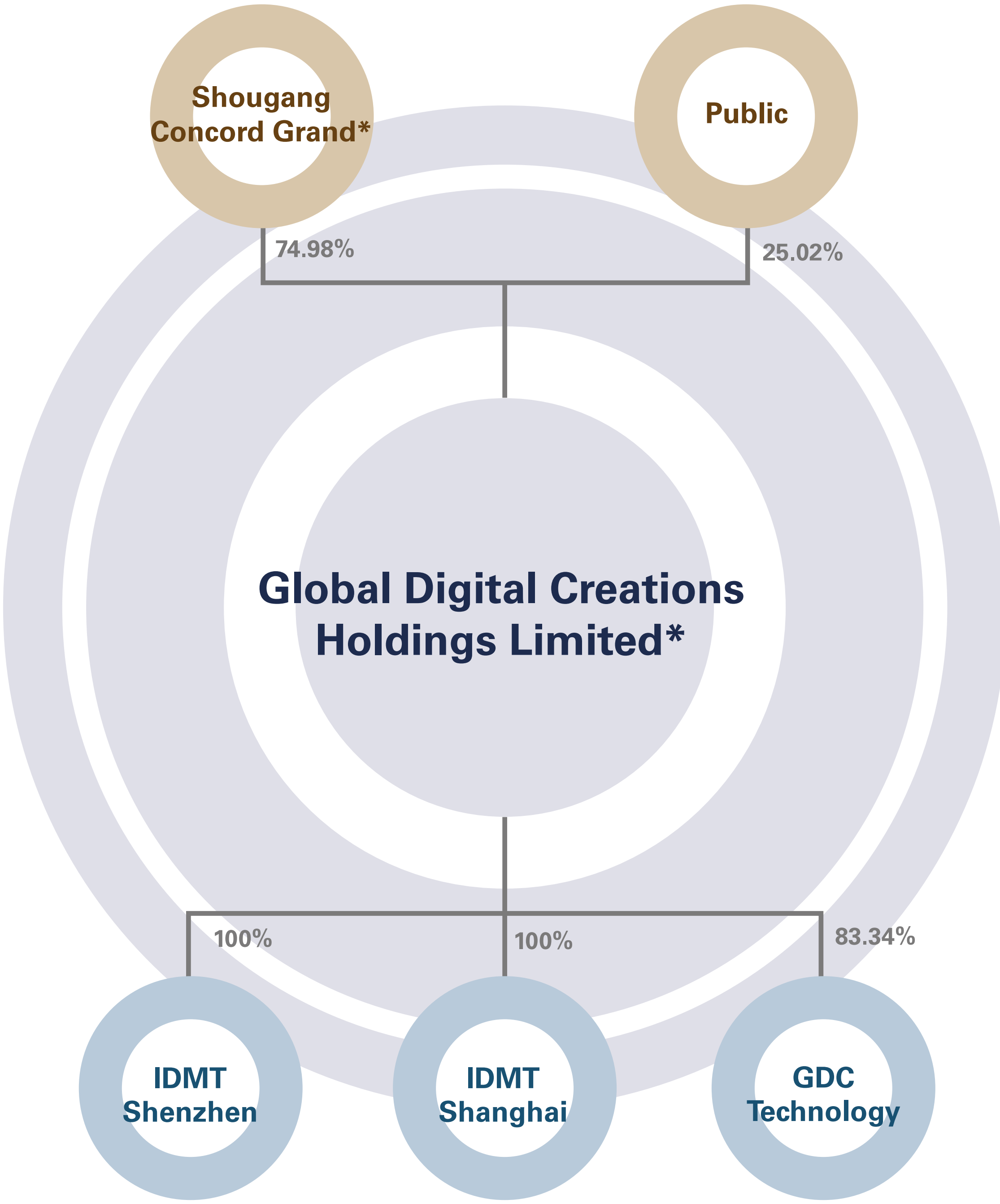
Last but not the least, our achievement and market leadership in all three areas of our businesses not only generated rewarding financial results, but also government recognition. GDC was awarded two prizes in the 2006 Chinese International Audio-visual Animation Entries "Handsome Monkey Award" Contest of the 2nd Chinese International Creative Animations Festival, while "The Legend of Shangri-la" was awarded with the "Best Visual Effects Award" by Hong Kong Information and Communication Technology Organization 2006. On the other hand, Mr. Chen Zheng, the CEO of the Group was elected as the first place winner of the China Creative Industry Top 10 Leaders award in 2006, and the Company was elected as the Leading Enterprise award of the Creative Industry in China in 2006.

I am confident that the Group is able to maintain steady growth and becomes one of the best digital media company in Asia, as we have growing income from CG creation and production and CG training; high growth potential for digital content distribution and exhibitions, accompanied with the dedication of our management team, staff and the continued support from the shareholders.

Cao Zhong
Chairman

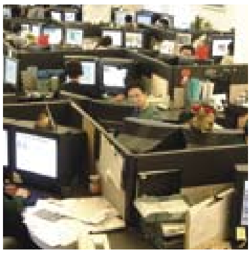
Corporate Structure

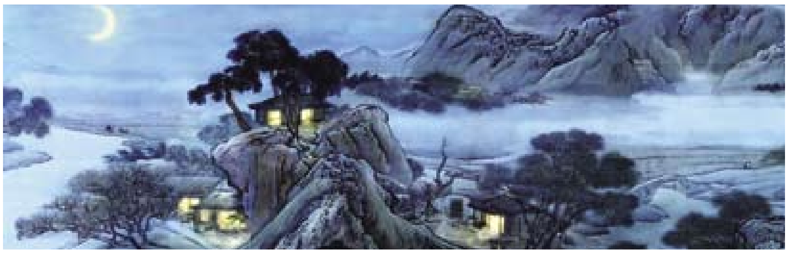
As at 31 December 2006



** Listed Company*

CHIEF EXECUTIVE OFFICER'S REVIEW & OUTLOOK





Chief Executive Officer's Review & Outlook

It is my pleasure to report that GDC achieved rather satisfactory results for the year ended 31 December 2006, with gross profit reaching approximately HK$24.8 million. We have achieved substantial loss reduction by 60% over the result of 2005. Furthermore, all three subsidiaries had retained and strengthened their industry leadership position in China and Asia over the last year. Please allow me to provide you with reflection on our achievement to date and outlook for next year.

DIGITAL AUDIO-VISUAL CONTENT CREATION AND PRODUCTION

As consumers all over the world demand for greater audio-visual sensations at the movie theaters and in front of the television ("TV") tubes and computers, tremendous business opportunities has been created for digital CG animation audio-visual creation and production. For movies, all the top twenty box office movies in the world since 1994 has had a significantly high portion of CG generated effects, and several of them were entirely 3 Dimension CG animation production, suggesting that CG has become an incredible part. In addition, leading children's channels worldwide have already begun to gradually upgrade their animation programs from 2 Dimension to 3 Dimension, and newly launched High Definition ("HD") channels in the United States and Europe are also spending generous amount of funding to commission HD animation TV series in order to attract subscribers. Currently, digital animations content is a fast developing market. Meanwhile, continuous business development and innovation make it inevitable to turn productions to the Asian market.

In order to expand the digital animations market, we began to work together with world-class production houses in late 2005, in order to generate steady revenue stream and at the same time, directly establish partnership with Hollywood studios and film distribution companies. The collaboration also further improved our CG production capacity and skills. Different from the outsourcing of the 2 Dimension animation business, 3 Dimension CG requires higher technology level and more complicated management skills of production houses.

Through continuous efforts and adjustments, manpower training, enhanced financial management and quality management, GDC possessed a comprehensive 3 Dimension CG design and production line as well as production control system, with a total of 16 production departments capable of self research and development, planning, production, and the carrying out of every kind of 3 Dimension animation movies and TV series. Meanwhile, the Group also possess the most professional creation team, the most advanced technology and the most effective international management team in China, thus becomes the only company capable of producing large scale 3 Dimension CG animation TV series and movies of international quality.

Chief Executive Officer's Review of Outlook

These brought to the Group international 3 Dimension CG processing contracts and the cooperative copyrights of 3 Dimension animation movies. We had produced several TV series and direct to home films for our clients, and many of them had already been commercially released overseas in the same year.

On top of this foundation, the Group will further develop original content production. We successfully released the first created-in-China full length CG animation movie "Thru The Moebius Strip" in summer 2006 in China. The public release of this movie filled the gap of the 3 Dimension animation movie domain in China. Together with the release of "Thru the Moebius Strip" are those film-related derivative products, such as a large album of the audio-visual animation classics "The Birth of a CG Film", a fiction under the same title "Thru the Moebius Strip", which is an educational and entertaining reading material for youths and children, and related comics as well as dolls and stationeries of those animated characters. The authorisations in respect of DVD distribution, network distribution and TV broadcasting of the film are all well-established, receiving appraises from customers and professionals in the industry. As some commentaries may say, the release of "Thru the Moebius Strip" has created an non-assessable impact on the animation industry in the PRC. It has not only marked a new idea for complete 3 Dimension animated films in the PRC, but also explored into a new idea of producing animation production in collaboration with foreign countries, which has substantially enhanced the development of creative industry in the PRC in terms of advanced technology, contents and 3 Dimension animation industry chain.

Besides, pieces such as "夏", "The Legend of Shangri-la" and "敦煌.飛天" are a series of films produced by GDC which are not only based on the cultural heritage over the thousand years but had also tried to interpreted the film in an innovative way, thus receiving relatively high international regards. "The Legend of Shangri-la" received the best short film award in the Hansome Monkey Award and the No. 1 in the China Region Award and the Final Award in the Eighth "DigiCon 6" (Tokyo) Contest in 2006 respectively with the use of 3 Dimension technology in creating digital shadow puppet styles for carriers. Over 1000 entries were submitted by digital content creators throughout Asia, and "The Legend of Shangri-la" had won the first place. This is the first time a Chinese studio won such prestigious award from this competition.

These original pieces fully demonstrate the balance between business value and artistic ideas of the Group. More importantly, the unique expression of 3 Dimension animation was used for international exchange and spread of culture in order to seek a greater social impact.

For the year 2006, our CG creation and production subsidiary has achieved revenue of approximately HK$30.4 million, gross profit of approximately HK$15.0 million, the operations expanded

Chief Executive Officer's Review of Outlook

dramatically. It is the first time for our CG creation and production business to have operating cash flow breakeven in its entire history. This result may not come cross as impressive when compared with businesses in some other industry, however, for any large scale CG animation production company in the world, very few can reach this level of operation efficiency within six years, as the threshold for this type of business is very high, and the complexity of management is also high. Such results is almost unique among large-scale 3 Dimension animation companies in China, Hong Kong and Taiwan, implying that the company will record profit in the coming year. Our results and publicity had undisputedly established the Group's CG production studio as the number one CG animation production studio in China and one of the best in Asia.

DIGITAL CG TRAINING

In recent years, with the Chinese government's strong support to animation business development, the demand for CG professions in China is huge. According to one government report, the industry sector is now in need of 100,000 CG artists. However, there are only a few thousands 3 Dimension CG animation practitioners in the country. The serious shortage in manpower creates huge opportunity for our 3 Dimension CG animation training.

We set the goal at the beginning of the year to maintain the leadership position in the CG professional training domain in China at all times measured by highest quality training and highest graduates employment rate. We filled all of our class room capacity in 2006 with 50% students coming to us through word-of-mouth. Currently, we have already set up training centres in six major cities including Shenzhen, Shanghai, Beijing, Shenyang, Xi'an and Nanjing, and is planned to expand to other cities in the country. In May 2006, the quality and strength of the Group's animation training were fully illustrated with the entry "EGG" produced by students of the third phase of the GDC Training Institute in Shanghai winning the bronze prize in the animation group in "Aniwow! 2006", the First PRC (Beijing) International University Students' Animations Festival.

We had achieved approximately 26% revenue growth and cash flow positive for our training business in 2006.

DIGITAL CONTENT DISTRIBUTION AND EXHIBITIONS BUSINESS

The decrease in the revenue from digital content distribution and exhibitions was mainly due to delay of the launch of its new products in compliance with the new industrial technical standard, which was just coming out in the fourth quarter of 2006. Our digital cinema subsidiary, GDC Technology Limited ("GDC Technology") completed the research and development of digital cinema products of the latest JPEG2000 and launched its second generation digital cinema ("D-cinema") server at Beijing International Radio, TV & Film Equipment Exhibition

Chief Executive Officer's Review of Outlook

Location of our digital cinema equipment deployed.

2006 (BIRTV) in August 2006. This new "hybrid" server SA2000 DSR™ Digital Film Server for digital films allows users to exhibit digital cinema contents on JPEG2000 format, which is in complying with certain specifications issued adopted by the Digital Cinema Initiatives, LLC ("DCI") and maintains its backward compatibility with the MXF MPEG2 Interop format. The same SA2000 Server also plays out alternative contents such as pre-show entertainment, on-screen-advertisement and high definition television live-events in high quality without the need for another server. In late 2006, a couple of Hollywood blockbusters were also released in JPEG2000 formats to our newly upgraded SA2000 servers. Since the launch of our new SA2000 server, we had received orders and upgraded from customers for the new SA2000 serves.

In addition, we found that size of order received was growing. GDC Technology has signed contracts ordering material quantity during the year, for example 100 units of servers in one single contract. It was considered as an evidence of large scale roll out of D-cinema.

Further, our technology can be applied in a more advanced manner. GDC Technology was selected by a Hong Kong listed company to supply a complete D-cinema solution to its first brand name flagship multiplex including multi-screen cinema, the in-lobby displays such as LCD digital signage, Plasma television monitors and indoor LED video wall which are to be fully integrated into one theater management system.

We have entered into a cooperative agreement scheme with China Film Group Corporation ("CFGC"), whereby about 2,000 units of digital cinema integrated projection system will be installed in the next two years. This will highly accelerate the digitalisation of the film industry in China and at the same time, lay a solid foundation for commencing related businesses of the Group, thus enable the Group to become the technology supplier of digital cinema in China as well as the pioneer in related businesses on top of its basis as a provider of digital cinema equipment worldwide.

OUTLOOK

In 2006, we have lined up each subsidiary's management team to focus on executing corporate strategy. Our effort and results set up a solid foundation for the Group to grow at a much faster pace next year. The market demands are there and huge, we will better execute and improve efficiency in order to harness the financial and market rewards.

In CG creation and production business, we expect to see that more world class clients requesting services and co-production partnership from us, generating a steady and profitable revenue stream in the near term; the existing co-production deals

Chief Executive Officer's Review of Outlook

generating moderate upside on back end revenue; our clients will become the creative and world wide distribution partners for our future original content creation effort. At the time of writing this report, we already saw solid deals are being sealed to fill our existing production capacity, we may even have to expand or out-source some of our works this year to fulfill the market demand.

In CG training business, we anticipate steady revenue growth and better profit margin through continued management improvement and focused marketing programs. Our success in CG creation and production area will further enhance our training brand's market value, therefore attracts more students to us and more demands for our graduates. We will continue our expansion through franchise training centers as well.

In digital content distribution and exhibitions business, since the release and endorsement of DCI specifications by the consortium of Hollywood's major studios, the race for the movie industry to transition from analog (printed film) to digital (data on hard disk) is officially on. All over the world, leading theater operators, cinema equipment manufacturers and cinema service providers have all announced bold transition plan to roll out digital cinema in the next 5 years starting from last year, and the world wide digital cinema installation had jumped from 1000 screens prior to 2005 to several thousands screens by end of 2006. We are of the view that such trend would bring ample business opportunities to GDC Technology and considered that it was in the interest of GDC Technology to secure additional funding to expedite the rolling out of its business plan. With the completion of GDC Tech Subscription, details of which are set in our circular dated 27 December 2006, GDC Technology had addition funding of approximately HK$50 million for business expansion in China and other countries and for enhancement of its research and development activities.

In addition to its second generation D-cinema server, SA2000 DSR™ Digital Film Server, GDC Technology is in a unique position to offer its complete suite of content delivery and playback solutions with DSR™ Network Operations Centre (NOC) software for customers who run digital cinema, on-screen advertisement and out-of-home advertisement business. Within months of launching these new products, GDC Technology received orders of digital signage solutions equipment to twelve large shopping malls in Singapore, cinema multiplexes in Hong Kong as well as in India. GDC Technology has started generating revenues from these new products and expected that the abovementioned new products will enhance and expand GDC Technology's role to become the leading supplier of digital content delivery and playback equipment to worldwide customers.

Besides, as mentioned in our announcement dated 31 October 2006 in relation to cooperation agreement signed with CFGC, CFGC and us target to jointly promote digital cinema business in China by two stages. In stage one of development, CFGC and us aim to install at least 700 units of digital cinema integrated projection system at the top 100 cinemas in China by 2007 and at least 2,000 units of digital cinema equipment at major cinemas in China by 2008 in the second stage of development. We will share a portion of box office receipts of those cinemas using our digital cinema integrated projection system for distribution of digital motion pictures. This arrangement not only will provide us a rapidly growing revenue stream, but also seal our de facto D-cinema solution provider position in China.

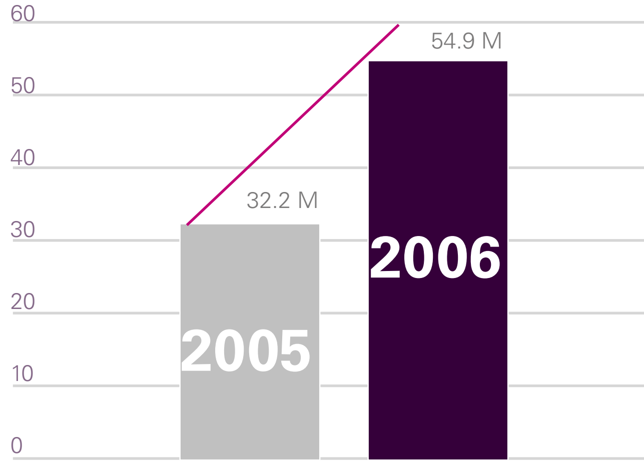
This is an exciting time to be in the digital content creation, production and distribution business because of the high consumer demand and mature of technology. We constantly find out that we have to change into better running shoes while we are running.

Chen Zheng
Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue (HK$M)

+70.59%



Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2006 was approximately HK$54,920,000, when compared with that of approximately HK$32,195,000 for the year 2005, represented an increase of approximately 71%. The increase is mainly attributable to the increase in revenue of approximately HK$25,448,000 and HK$1,881,000, respectively, from CG creation and production and CG training courses, netting off with a decrease of approximately HK$4,604,000 from digital content distribution and exhibitions.

During the year ended 31 December 2006, the Group's revenue from CG creation and production amounted to approximately HK$30,354,000, increased for approximately 519% comparing with that for the year 2005, as a result of that the Group's strategy of entering into the business of subcontractor of CG creation and production has been successful. Training fee income amounted to approximately HK$9,093,000, increased by approximately 26% mainly due to the increase in both number of course provided and average number of student attending each course. Revenue from digital content distribution and exhibitions, which mainly consisted of sales of digital cinema equipment, decreased as the launch of its new products in compliance with the new industrial technical standard was just coming out in the fourth quarter of 2006, progress of order negotiation with customers was deferred.

Cost of sales for the year ended 31 December 2006 amounted to approximately HK$30,135,000 which, comparing with that of approximately HK$34,848,000 for the year 2005, represented a decrease of 14%. Despite the increase in revenue, the decrease in cost of sales was mainly due to increase in efficiency in CG creation and production and save of starting up costs from this new business in the year 2005.

Allowance for production work in progress made during the year ended 31 December 2005 amounted to approximately HK$24,712,000 was on the production costs of an animation movie "Thru the Moebius Strip" (the "Movie"), which has been released in China in second half of 2006. No significant allowance was required to make for the year ended 31 December 2006.

The Group made a gross profit of approximately HK$24,785,000 for the year ended 31 December 2006, representing a gross profit margin of approximately 45%. Comparing with the gross loss resulted in the year 2005, there was a significant improvement in terms of both monetary value and percentage to revenue. The improvement was mainly from the result of the success of the Group's strategy of entering into the business of subcontractor of CG creation and production.

Management Discussion and Analysis

Distribution costs for the year ended 31 December 2006 amounted to approximately HK$6,479,000 (2005: HK$2,031,000), representing an increase of approximately 219%. The increase in the distribution costs was mainly due to costs were incurred during the year for the promotion of the Movie and of the new products of digital cinema equipment launched in compliance with the new industrial technical standard.

Administrative expenses for the year ended 31 December 2006 amounted to approximately HK$38,365,000 (2005: HK$37,429,000), representing an increase of approximately 3%. The increase was mainly due to recognition of equity-settled share based payment of approximately HK$5,937,000 for the share options granted during the year. Adjusted for this non-cash flow expense, the administrative expenses decreased by approximately 13%.

Finance costs for the year ended 31 December 2006 amounted to approximately HK$13,080,000 (2005: HK$7,675,000), representing an increase of approximately 70%. The increase was mainly come from increase in the outstanding balance of the loan from SCG Finance and other borrowings to finance the Group's loss incurred and the Group's development.

Gain on disposal of partial interest in a subsidiary of approximately HK$1,795,000 for the year ended 31 December 2006 mainly represented the gain on a transfer of 15% interest in GDC Technology to the management of GDC Technology for an aggregate cash consideration of HK$1,600,000. The Board considers that the transfer would lead to GDC Technology's management having personal interests in GDC Technology and it would enhance their commitment and participation in the business of GDC Technology. As their personal investment will be directly affected by the performance of GDC Technology, the Board anticipates that GDC Technology's management would devote more time and be more focused on the business of GDC Technology. This additional commitment will facilitate the development of GDC Technology and in turn the continuous development of the Group.

Overall, the Group incurred loss of approximately HK$30,245,000 for the year ended 31 December 2006, when compared with that of approximately HK$76,356,000 for the year 2005, represented an improvement of approximately 60%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK$8.6 million as at 31 December 2006 (2005: HK$3.7 million) and no pledged bank deposits as at 31 December 2006 (2005: HK$16.5 million) which were mainly denominated in Hong Kong dollars and Renminbi. The decrease was mainly the result of that the Group had reserved approximately HK$14.4 million at 31 December 2005 to restructure/renew bank borrowings and paid the reserve during the year ended 31 December 2006.

The Group's borrowings amounted to approximately HK$121.7 million as at 31 December 2006, of which approximately HK$29.5 million were repayable within twelve months from 31 December 2006 and approximately HK$92.2 million were repayable after twelve months from 31 December 2006. There was no gearing ratio (calculated as bank and other borrowings less bank balances and cash divided by shareholders' fund) presented as the Group recorded capital deficiency as at 31 December 2006.

CAPITAL STRUCTURE

As at 31 December 2006, the Group recorded capital deficiency of approximately HK$154.7 million (2005: HK$128.2 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$30.2 million incurred during the year under review.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the transfer of 15% interest in GDC Technology as mentioned above, the Group had no material acquisitions, disposals and investment during the year ended 31 December 2006.

CHARGE ON ASSETS

The Group had no charge on assets as at 31 December 2006.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group mainly earns revenue in United States dollars and incurs costs in Renminbi, United States dollars and Hong Kong dollars. Considering that the Group will have sufficient foreign exchange currencies to meet its foreign exchange requirement, the Directors believe that the Group does not have significant foreign exchange problems. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2006, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 43 to the financial statements about litigations proceeding, the Group had no significant contingent liabilities as at 31 December 2006.

EMPLOYEES

As at 31 December 2006, the Group employed 351 (31 December 2005: 330) 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.

Corporate Governance Report

The Group has applied the corporate governance practices and believes that effective corporate governance will improve the transparency and enhance the shareholders' value.

The Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code"). This report describes the main corporate governance practices with reference to the Code applied by the Group throughout the financial year ended 31 December 2006. Unless otherwise stated, these practices were in places for the entire year.

BOARD OF DIRECTORS

Composition

The Board of Directors of the Company (the "Board") currently comprises four Executive Directors, one Non-executive Director and three Independent Non-executive Directors with business consultancy, accounting and banking backgrounds who are playing important roles to guide the management to provide adequate checks and balances for safeguarding the interests of the Group's shareholders. The list of Directors are set out on the Company's website.

Appointment and re-election

All the Directors have either formal letters of appointment or service contracts setting out the major terms and conditions of their appointment. The terms of their appointment are fixed at three years and all of them are subject to the rule of rotation of at least once three years at the annual general meeting.

Function of the Board

The Board is responsible for overseeing the successful management of the Group and devising the Group's future strategy. The Board delegates the management of the Group's day-to-day operations to carefully chosen Executive Directors and senior management personnels (the "Management"). The Management is responsible for specific operations, preparing strategic directions, budgets and business plans for the Board's approval. The Board in its turn looks to the Management to ensure it is appraised of all significant developments that may affect the Group and its operations. All major acquisitions, disposals, investments, financing and other significant issues pertaining to the Group are all subject to the Board's approval.

Independent Non-executive Directors

All the Independent Non-executive Directors are financially independent from the Group and its shareholders. Through their participation and contribution in the Board's meeting, they bring independent judgment to the Group's strategy and policies.

There is no family relationship between any of our Directors or executive officers. All of them are free to exercise their independent judgment. Each Independent Non-executive Director has confirmed his independence with the Company.

Board Meetings

All the Directors are given at least 14 days prior notice for them to include any matters for discussion in the agenda. The final agenda together with the Board papers are distributed to the Directors at least three days before the Board meetings.

Corporate Governance Report

The Company Secretary is responsible to ensure the Board procedure and all applicable rules are complied. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and such minutes are open for inspection within reasonable advance notice.

The Board met at least four times during 2006 and conducted the following principal activities:–

- reviewed and approved the quarterly, interim and final results, announcements and matters to be considered at annual general meeting;
- evaluated material investments and capital project;
- reviewed the performance of operating divisions and resources used with reference to the agreed budgets and targets;
- discussed the Group's strategic development and management recommendations.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will not be dealt with by way of written resolutions or by a committee (except if that that committee specifically established for such purpose by the Board or by terms of reference of such committee). Independent Non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The Audit Committee, the Remuneration Committee and the Nomination Committee adopted the same principles and procedures used in Board meetings.

Meeting records

The following is an attendance record of the meetings held by the Board during 2006 and the attendance at Board Meetings:–

Attendants	Number of Meeting Attended/Held in 2006	Attendance rate (%)
Executive Directors		
Cao Zhong *(Chairman)*	4/8	50%
Chen Zheng *(Chief Executive Officer)*	7/8	87.5%
Jin Guo Ping*	5/7	71.4%
Xu Qing, Catherine*	7/7	100%
Non-executive Directors		
Leung Shun Sang, Tony	7/8	87.5%
Deng Wei, David/ Zhang Dong Sheng (Alternate to Deng Wei, David)	2/8	25%
Independent Non-executive Directors		
Kwong Che Keung, Gordon	6/8	75%
Bu Fan Xiao	1/8	12.5%
Hui Hung, Stephen**	7/7	100%

* appointed on 6 February 2006
** appointed on 1 February 2006

Corporate Governance Report

Access to Information

All the Directors are continually informed on the operation and business of the Group through regular financial reports, budget reports and strategic plans. A visit was arranged for the Directors to update them on the business of offices in Shenzhen and Shanghai, China as well as the business of GDC Technology Limited.

The Board enjoys the right of independent access to the Group's senior management enabling them to obtain informed decisions on issues of the Group.

Directors' and Officers' Liability

The Company has taken comprehensive Directors' and officers' liabilities insurance coverage for the Directors and officers of the Company and its subsidiaries. This covers them against costs, charges, expenses and liabilities incurred in their capacity as Directors or officers of the Company and its subsidiaries, subject to the provisions of the Companies Ordinance and other applicable legislation.

Continuing Professional Development

The Company provided the Directors with updated information on the latest development of GEM Listing Rules and other applicable regulatory requirements. Any Directors may request the Company to organise independent professional advice or training at the cost of the Company to develop and refresh their knowledge and skill and discharge their duties to the Company.

Segregation of roles of Chairman and the Chief Executive Officer

The role of Chairman and the Chief Executive Officer are segregated to avoid power being concentrated by any one individual or the controlling shareholder. Mr. Cao Zhong is Chairman of the Group and Mr. Chen Zheng is the Chief Executive Officer of the Group.

The Chairman is responsible for focusing on the Group's business development and the Board issues to ensure all Directors are well informed on the issues arising at the Board meeting. The Chairman will encourage all Directors to actively participate in all board meetings and ensure the good corporate practices and procedures are implemented and observed.

The Chief Executive Officer is responsible for day-to-day management and operations of the Group's businesses and the implementation of the business policies and strategies in achieving the goal of the Group.

BOARD DELEGATION

The Board delegated its responsibility to the senior management of relevant principle divisions. In addition, the Board is supported by Audit Committee, Remuneration Committee and Nomination Committee. Each of them has defined terms of reference and has specific authority to examine the issues and give their recommendation to the Board (if necessary). Unless the decisions provided for the terms of reference of the relevant committees, the final decisions were made by the Board.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee
- Nomination Committee

Audit Committee

The Audit Committee currently consists of three Independent Non-executive Directors namely Mr. Kwong Che Keung, Gordon (chairman), Professor Bu Fan Xiao and Mr. Hui Hung, Stephen. Their primary duties include:–

Corporate Governance Report

i. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved, if any;

ii. to review the draft Company's annual report and accounts, interim and quarterly reports before submission , and providing advice and comments thereon on to the Board;

iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal; and

iv. to discuss problems and reservations arising from the audits and matters that the external auditors may wish to discuss (in the absence of the Management, where necessary).

During 2006, four meetings were held by the Audit Committee and the attendance records is as follows:–

Members	No. of meetings attended	Attendance Rate (%)
Kwong Che Keung, Gordon	4/4	100%
Bu Fan Xiao	1/4	25%
Hui Hung, Stephen	4/4	100%

The external auditors, the Chief Financial Officer, Internal Audit Manager and the Company Secretary also attended the Audit Committee Meetings at the invitation of the Audit Committee.

During 2006, the works performed by the Audit Committee were summarised as follows:–

- reviewed the annual report for the year ended 31 December 2005, interim report for the six months ended 30 June 2006 and the quarterly report for the three months ended 31 March 2006 and for the nine months ended 30 September 2006;
- reviewed the effectiveness of the internal control systems;
- reviewed the findings and recommendations of the Internal Audit Department;
- reviewed the external auditors' statutory audit plan and the letters of representation;
- considered and recommended the 2006 audit fees to the Board.

Corporate Governance Report

Relationship with External Auditors

The Audit Committee is charged with reviewing the external auditors' audit reports and ensuring that the Management makes timely responses to any and all issues raised therein. In order to ensure the full independence of the external auditors, the Audit Committee also reviews all non-audit related services provided by the external auditors. During the year ended 31 December 2006, the total fees paid and payable to the external auditors are as follows:–

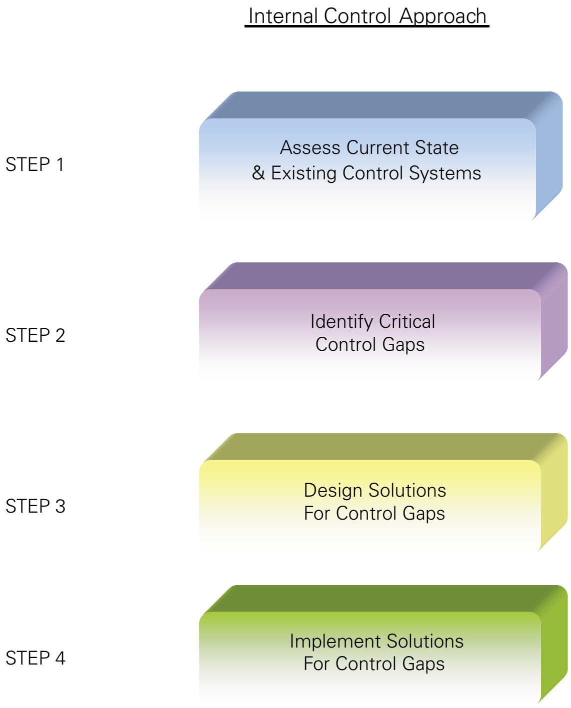
Services	Fees HK$'000
Audit Fee	1,572

The Audit Committee recommended the re-appointment of Deloitte Touche Tohmatsu as the Group's external auditor for the year 2006 and was approved by the shareholders' meeting in 2006.

Internal Control

The Board acknowledges its responsibility for maintaining a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets, and to manage rather than eliminate risks of failure in the Group's operational system. The Board has from time to time reviewed the effectiveness of the internal control systems in order to ensure that they respond to the changes in its business and external environment.

During the year, an Internal Audit Department was set up and responsible for conducting regular audit on the major controls of the Group, including financial, operational and compliance controls and risk management functions, and reporting directly to the Audit Committee. It has unrestricted right of access, to conduct audit on major aspects of all business units of the Group on a regular basis. In brief, the key internal control approach adopted by the Internal Audit Department is illustrated as follows:–



In order to maximise the effectiveness of the internal control systems, the Group have in place internal controls designed to give reasonable assurance that (i) the Group's assets and resources are effectively applied and safeguarded against unauthorised use or disposition; (ii) major transactions are executed in accordance with the management's proper authorisation; and (iii) the accounting records of the business are reliable both in their preparation and in their publication. Qualified personnel at all levels in the Group have been assigned to maintain and monitor these internal controls on an ongoing basis.

The Board, through the Audit Committee with the assistance of the Internal Audit Department and external auditors, has conducted regular reviews during the year on the effectiveness of the internal control system.

The Board is satisfied that the Group have complied with the code provisions on internal control as set out in GEM Listing Rules for the year ended 31 December, 2006.

Remuneration Committee

The Company had established the Remuneration Committee with specific terms of reference that specify its authority and duties. The current members of the Remuneration Committee with the majority of Independent Non-executive Directors is as follows:–

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice-Chairman)*
Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen

Their primary duties comprise:–

- making recommendations on the remuneration policy of the Group for the emoluments of the Executive Directors, senior management and employees of the Group;
- making recommendations on the share options to be granted to the eligible grantees under the Share Options Scheme of the Company;
- determining the bonus in accordance with a performance-based evaluation system for the Board's approval;
- review and recommend the remuneration packages and compensation arrangements for Executive Directors and the senior management of the Company.

During 2006, three meetings were held by the Remuneration Committee and the attendance record are as follows:–

Members	No. of meetings attended	Attendance Rate (%)
Leung Shun Sang, Tony	3/3	100%
Cao Zhong	2/3	66.7%
Kwong Che Keung, Gordon	3/3	100%
Bu Fan Xiao	0/3	–
Hui Hung, Stephen	3/3	100%

Corporate Governance Report

During 2006, the works performed by the Remuneration Committee were summarised as follows:–

- reviewed the remuneration policy of the Group and recommended the emoluments arrangements of Executive Directors by reference to market practices, individual and the Group's performance, working experiences, duties and responsibilities within the Company and its subsidiaries for the Board's approval. No Director is involved in determining his own remuneration. The Committee was also provided with other resources enabling it to discharge its duties;
- reviewed and recommended the new share options of GDC Technology Limited for the Board's approval;
- recommended the quantity of shares to be awarded to eligible grantees of the Group and GDC Technology Limited under the share option scheme of the Company and GDC Technology Limited respectively.

Remuneration Policy

The remuneration policy is established to provide fair and market competitive remuneration packages to its Directors as well as all employees of the Group with a view to attract, motivate and retain the high performing individuals and optimise the value of the Company to its shareholders.

The remuneration structure for the senior management comprises three components – fixed component, variable component and provident fund. The variable component is dependent on the actual achievement of corporate targets and individual performance and is in line with market practice.

i) Fixed component

The basic salary should fall within the reasonable level of what is paid by comparable companies in relevant employment markets for similar jobs, but varies with responsibilities, performance, skills and experiences that the individual brings to the role. Salaries are reviewed annually in the context of individual and business performances, work contributions, market practices and competitive market pressures.

ii) Variable component

Apart from the basic remuneration provided, bonus and share options are offered to qualified employees to reward them for their positive performances and to foster loyalty within the Group. Allowances and benefits are largely determined by local market practices.

iii) Other Benefits

Mandatory Provident Fund ("MPF") is offered to all full-time employees of the Group. The Group also provides other benefits to employees such as medical insurance and business travel allowance.

Nomination Committee

The Company has established the Nomination Committee with specific terms of reference that specifies its authorities and duties. The new current members with the majority being Independent Non-executive Directors was as follows:–

Cao Zhong *(Chairman)**
Leung Shun Sang, Tony *(Vice-chairman)**
Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen

* appointed on 3 January 2007

The Nomination Committee regularly reviews the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary. The Nomination Committee is also responsible for identifying and nominating the candidates for the approval of the Board as and when they arise. Apart from the above, the Nomination Committee will access the independence of all the Independent Non-executive Directors as set out in the GEM Listing Rules.

No meeting was held by the Nomination Committee in the year 2006.

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 year ended 31 December 2006.

COMMUNICATION WITH SHAREHOLDERS

The Company has always believed in nurturing a close and open relationship with its shareholders. Each year, the Company's AGM provides a forum at which the Company's Board and shareholders can get together to exchange opinions and ideas. At the AGM, shareholders are invited to direct questions to the Board. Those who are available to answer such questions include not only the Chairman of the Board, but also the Chairman of the respective Committees, or in their absence, members of the Committees.

The Company’s AGM took place on 26 May 2006. All resolutions taken at the AGM were voted on by hand. Substantially separate issues such as the election of a Director at an AGM are dealt with by the proposal of a separate resolution by the Chairman of that particular meeting.

Details of all polls, the voting procedures and shareholders' right to demand a poll, are included in the Company's circulars to shareholders.

INVESTOR RELATIONS

The Company continues to go to great lengths to ensure that its dissemination of details of major activities, price sensitive information and transactions is fully compliant with the GEM Listing Rules. To ensure compliance, the Company has detailed a series of procedures which must be used in communication with analysts and the media. These measures were developed to ensure full compliance with the Stock Exchange's guidelines regarding the disclosure of price-sensitive information. The Company also has carefully selected a number of its officers to act as its representatives when liaising with analysts and the media.

Corporate Governance Report

The Company remains determined to further enhance the transparency of its operations by making full use of all appropriate communication channels when sharing information with third parties. During the year 2006, the Company communicate to its shareholders through press releases and formal announcements, and the issue of quarterly, interim and annual reports. All information is available at the Company's website. The Directors and the senior management also respond promptly to inquiries from the shareholders and investors.

Shareholders who wish to put forward their proposals or inquiries to the Board of the Company may write to the Company at 6/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

1. Significant changes in Bye-laws

The Bye-laws of the Company were amended and approved by shareholders at 2006 AGM. Saved for the above, there were no significant change to the Company's Bye-laws during the year 2006.

2. Shareholding information

As of 31 December 2006

Authorised share capital :	HK$12,000,000 divided into 1,200,000,000 shares of HK$0.01 each.
Issued and fully-paid up capital :	approximately HK$8,008,000 comprising 800,820,000 shares of HK$0.01 each.

The following table summarised the existing shareholding structure of the Company:–

Category	No. of Shares	% of issued share capital of the Company
Controlling Shareholder	600,466,023	74.98%
Public Shareholders	200,353,977	25.02%
Total	800,820,000	100%

3. Public Float

According to the available information of the Company and within the knowledge of the Directors, the percentage of its public float exceeds 25% as of 31 December 2006.

Directors' and Senior Management Profile

Cao Zhong

Chairman and Executive Director

Mr. Cao Zhong, aged 47, graduated from Zhejiang University, the PRC and Graduate School, The Chinese Academy of Social Sciences with a Bachelor Degree in Engineering and a Master Degree in Economics. He was appointed a Non-executive Director and the Joint Chairman of the Company in February 2005 and was re-designated as Chairman and Executive Director of the Company in June 2006. He was appointed as the chairman of each of Shougang Concord Century Holdings Limited and Shougang Concord Technology Holdings Limited, the deputy chairman and general manager of Shougang Holding (Hong Kong) Limited, the managing director of Shougang Concord International Enterprises Company Limited and the vice chairman and managing director of Shougang Concord Grand (Group) Limited. He also acts as the assistant general manager of Shougang Corporation and the chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Chen Zheng

Chief Executive Officer and Executive Director

Mr. Chen Zheng, aged 47, is an engineer and a senior economist. Mr. Chen holds a Bachelor Degree in Chemical Engineering and a Master Degree in Business Administration. He is an Executive Director and re-designated as the Chief Executive Officer of the Company in February 2006. He is also a managing director of operations and executive director of Shougang Concord Grand (Group) Limited. Mr. Chen has worked for leading cultural media in China for many years and has extensive experience in investing business and corporate management.

Xu Qing, Catherine

Vice-President and Executive Director

Dr. Xu Qing, Catherine, aged 40, holds Doctor of Electronic Engineering from University of Virginia and a Bachelor of Electronic Engineering from Peking University. She has extensive experience of business development, sales and marketing experience in the internet, wireless and digital entertainment industries for 15 years. Dr. Xu was the vice president for business development of eTrieve, Inc., an integrated messaging service company. She was also the chief executive officer and co-founder of Right4Me.com, a Linkedin.com like mobile internet community company. The company's technology was sold to the mobile carrier Orange in United Kingdom, a Vodafone Group company. Before that, she had held director positions in marketing, sales and business development in American Online and Netscape for their Asia-Pacific operations.

Jin Guo Ping

Vice-President and Executive Director

Mr. Jin Guo Ping, aged 48, senior economist, holds a Master of Business Administration Degree of China Europe International Business School (CEIBS), occupies current social positions as follows: Ordinary Committee Member of China Animation Association and Vice President of China Film Association. Meanwhile, he has also accepted as visiting professor in Animation School of Beijing Film Academy, Counselor of Animation School of Jinlin College of the Arts and Korea Animation Association.

From 1994 to 2005, Mr. Jin worked as the director of Shanghai Animation Film Studios, and the chairman in Shanghai Yilimei Animation Company Limited, the chairman in Shanghai Carton Culture Developing Co. Ltd. and Proprieter in "Cartoon King" magazine concurrently. Meanwhile, he also worked as vice president in Shanghai Film Group Corporation, vice chairman in Shanghai United Film Chain Co., Ltd, director of Shanghai Paradise Co. Ltd, general manager in Shanghai Animation Film

Directors' and Senior Management Profile

& TV (Group) and vice chairman in Shanghai Television Station concurrently. From 1995 to 2000, Mr. Jin worked as Syndic in International Animation Association (ASIFA), and accepted the invitation as appraiser in Ottawa International Animation Festival of Canada. He has extensive experience in animation and film industries.

In the last ten years, Mr. Jin had schemed and supervised the following animation films and teleplays, "The Lotus Lamp", "Liang Shanbo and Zhu Yingtai", "I'm Crazy about Music", "Around The World in 80 Days" (Sino-German), "Gods of Honour Legend", "Legend of Sui Tang Hero", "Snow White and Frog Prince", "White Dove Island", "Talent Inventor" (Sino-Australian) and "Detective Duck" (Sino-Canadian).

Leung Shun Sang, Tony

Non-executive Director

Mr. Leung Shun Sang, Tony, aged 64, holds a Master Degree in Business Administration of New York State University. He is a non-executive director of Shougang Concord International Enterprises Company Limited, Shougang Concord Grand (Group) Limited, Shougang Concord Technology Holdings Limited and Shougang Concord Century Holdings Limited, all of which are companies listed on the main board of the Stock Exchange. Mr. Leung is also the managing director of CEF Holdings Limited. He has extensive experience in areas of finance, investment and corporate management.

Kwong Che Keung, Gordon

Independent Non-executive Director

Mr. Kwong Che Keung, Gordon, aged 57, was a graduate of the University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was a partner of PriceWaterhouse Hong Kong from 1984 to 1998. He has served as a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of the Stock Exchange from 1992 to 1997 during which time he also acted as convener of both the Compliance Committee and the Listing Committee of the Stock Exchange. Currently, he is an independent non-executive director of a number of Hong Kong listed companies on the Stock Exchange, including COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., China Power International Development Limited, New World Mobile Holdings Limited, Henderson Land Development Company Limited. Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holding Limited. Mr. Kwong previously served as a non-executive director of COSCO Pacific Limited until his resignation in January 2006 and was an independent non-executive director of Henderson China Holdings Limited which was privatised in July 2005.

Bu Fan Xiao

Independent Non-executive Director

Professor Bu Fan Xiao, aged 61, graduated from Zhejiang University in 1982 majoring in Chemical Engineering with automation concentration, and was then an undergraduate culture researcher. Professor Bu has over 20 years of experience in administrative management. He was appointed as an Independent Non-executive Director of the Company in May 2005. Mr. Bu has been the vice-chancellor of Zhejiang University since 1992 and the chairman of Qware Technology Group Co. Ltd. since 1998.

Hui Hung, Stephen

Independent Non-executive Director

Mr. Hui Hung, Stephen, aged 49, is the managing director of Federal Glory Industrial Limited and Eastern Gain International Limited. Prior to joining the Company, Mr. Hui had been the manager of the China Division of the Far East Regional Office of the Bank of Credit and Commerce International in Hong Kong. He has extensive experience in banking, investment and financing investment in Mainland China. He graduated from Middlesex University in the United Kingdom in 1982 with a

Directors' and Senior Management Profile

Bachelor of Arts degree in Economics and Geography. Mr. Hui has been conferred a Master of Business Administration in 2001 by the Barrington University of the United States. In the past three years, Mr. Hui had also been an independent non-executive directors of Shougang Concord Century Holdings Limited, Shougang Concord Grand (Group) Limited and Quaypoint Coporation Limited (formerly known as Techwayson Holdings Limited), which are listed companies in Hong Kong.

SENIOR MANAGEMENT PROFILE

Guo Wei

General Manager of Institute of Digital Media Technology (Shanghai) Limited

Mr. Guo Wei, 43 years-old, the General Manager of "Institute of Digital Media Technology (Shanghai) Limited", a wholly owned subsidiary of our Group. Before joining our group, Mr. Guo was the lecturer of Zhejiang Silk Engineering Institute and Zhejiang University. During 1993 to 2006, he worked as the general manager assistant of Hangzhou Watching Instrument Co.,Ltd, the executive vice general manager of Zhejiang University Computer Co.,Ltd., the District Manager of LDL Technology Limited, the general manager of Hangzhou Sinostride Computer Co. Ltd., vice president of Sinostride Technology Group. Mr. Guo holds the a Bachelor Degree in Electrical Engineering of Zhejiang University and a Master Degree in Optical Engineering of Zhejiang University.

Chong Man Nang

CEO and a Director of GDC Technology Limited

Dr. Chong Man Nang, aged 41, is the founder and the Chief Executive Officer of GDC Technology Limited ("GDC Technology"). Dr. Chong received his Bachelor of Engineering (1st honours) and Ph.D.degrees, both in Electronic and Electrical Engineering from the University of Strathclyde, United Kingdom in 1988 and 1992 respectively. Prior to joining the Group, he was an Associate Professor of School of Computer Engineering at Nanyang Technological University, Singapore, from 1992 to 2000. He is also leading the digital film, high definition television and digital television research in Singapore from 1996 to 2000. Dr. Chong has been actively involved in the field of image processing, video coding, digital cinema and motion picture restoration for over a decade.

In 1996, Dr. Chong led a team to win the worldwide Texas Instruments' Digital Signal Processing Solutions Challenge US$100,000 award. In 1999, Dr. Chong founded Nirvana Digital Pte Ltd, a leading digital signal processing company which was subsequently acquired by Acterna Incorporation (NASDAQ: ACTR) in 2000. Acterna Incorporation is the holding company of Da Vinci Systems Incorporation which is the market leader in providing digital film, high definition television and SDTV colour enhancement technology to the worldwide post-production marketplace. Dr. Chong was the chief consultant of Da Vinci Technologies from 2000-2002. Dr. Chong is credited with the architecture, design,and successful commercial release of Nirvana's award-winning REVIVAL DIGITAL® product lines. REVIVAL DIGITAL® has been used to restore a large number of movies.

Tsang Yu Tit

General Manager of Institute of Digital Media Technology (Shenzhen) Limited

Mr. Tsang Yu Tit, aged 38, is the Chief Financial Officer of the Company and has been redesigned in January 2007 to the post of the General Manager of the Company's wholly owned subsidiary, Institute of Digital Media Technology (Shenzhen) Ltd., which is engaged in computer graphic creation and production. Mr. Tsang has 13 years experience in accounting, auditing and financial management. Prior to joining the Company, he worked for Deloitte Touche Tohmatsu and a number of companies including one Hi-Tech company listed on the Stock Exchange through an initial public offer. He is an Associate Member of Hong Kong Institute of Certified Public Accountants and Fellow Member of Association of Chartered Certified Accountants. Mr. Tsang graduated from Hong Kong Polytechnic University with a Degree of Bachelor of Arts.

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 49.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements is set out on page 103. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 35 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company did not have reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for about 58% of the total revenue of the Group and the largest customer accounted for about 38% of the total revenue.

Aggregate purchases attributable to the Group's five largest suppliers were less than 20% of total purchases.

None of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers and customers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Cao Zhong *(re-designated from Non-executive Director to Executive Director on 23 June 2006)*
Chen Zheng
Jin Guo Ping
Xu Qing, Catherine

Non-executive Directors

Leung Shun Sang, Tony
Deng Wei, David *(resigned on 15 February 2007)*

Independent Non-executive Directors

Kwong Che Keung, Gordon
Bu Fan Xiao
Hui Hung, Stephen
Japhet Sebastian Law *(resigned on 1 February 2006)*

Alternate Director

Zhang Dong Sheng *(resigned on 15 February 2007)*
(Alternate to Deng Wei, David)

Pursuant to Clause 87 of the Company's Bye-Laws, Messrs. Cao Zhong, Chen Zheng and Kwong Che Keung, Gordon will retire at the Company's forthcoming Annual General Meeting ("AGM") and, being eligible, offer themselves for re-election.

None of the Directors being proposed for re-election at the forthcoming AGM have a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Non-executive Directors and Independent Non-executive Directors are subject to retirement by rotation in the same manner as the Executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen an annual confirmation of his independence to Rule 5.09 and the Company still considers the Independent Non-Executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Executive Director

Each of the Executive Directors has entered into a service agreement with the Company. Each agreement is for a period of three years and shall continue thereafter until being terminated by either party giving not less than two months' prior written notice.

Non-executive Directors

The term of office of each of Non-executive Directors is for a period of three years.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market securities. No Director is involved in deciding their own remuneration.

The Group has adopted share option schemes as an incentive to Directors and eligible employees, details of the scheme is set out under the heading "Share Option Schemes".

Details of the remuneration policy for the Directors and senior management of the Group are set out in Corporate Governance Report under the heading "Remuneration Policy".

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in note 9 to the financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group and the costs charged to the consolidated income statement for the year ended 31 December 2006 are set out in note 39 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

Directors' and Chief Executive's Interests

(a) Interests and short positions of the Directors and the Chief Executive in shares and underlying shares of the Company and its associated corporations

As at 31 December 2006, the interests and short positions of the Directors and the Chief Executive of the Company 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) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (c) were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Report of the Directors

Long positions in Shares and underlying Shares in the Company

	Number of shares/underlying shares held in the Company				
Name of Director	Personal interests	Others interests	Equity derivatives interests (share options) *	Total interests	Approximate percentage of shares in issue
Cao Zhong	–	–	8,008,200	8,008,200	1.00%
Chen Zheng	–	–	8,008,200	8,008,200	1.00%
Leung Shun Sang, Tony	–	–	8,008,200	8,008,200	1.00%
Jin Guo Ping	–	–	8,008,200	8,008,200	1.00%
Xu Qing, Catherine	–	–	8,008,200	8,008,200	1.00%
Kwong Che Keung, Gordon	–	–	800,820	800,820	0.10%
Bu Fan Xiao	–	–	800,820	800,820	0.10%
Hui Hung, Stephen	–	–	800,820	800,820	0.10%

* The relevant interests are unlisted physically settled equity derivatives pursuant to the Company's share option scheme adopted on 18 July 2003 (the "Scheme"). The options at subscription price of HK$0.30 per share may be exercised in accordance with the terms of the Scheme in full at any time within three years from 6 October 2006 and the options will expire at the close of business on 5 October 2009. The share options are personal to the respective Directors.

Long positions in shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand")

	Number of shares/underlying shares held in Shougang Grand				
Name of Director	Personal interests	Others interests	Equity derivatives interests (share options)*	Total interests	Approximate percentage of shares in issue
Cao Zhong	8,278,679	–	–	8,278,679	0.73%
Leung Shun Sang, Tony	8,278,000	–	679	8,278,679	0.73%

* The relevant interests are unlisted physically settled equity derivatives pursuant to share option scheme of Shougang Grand adopted on 7 June 2002. Upon exercise of the share options in accordance with that 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.

Report of the Directors

Long positions in shares and underlying shares of GDC Technology Limited ("GDC Technology")

	Number of shares/underlying shares held in GDC Technology				
Name of Director	**Personal interests**	**Others interests**	**Equity derivatives interests (share options) ***	**Total interests**	**Approximate percentage of shares in issue**
Cao Zhong	4,266,667	–	4,266,667	8,533,334	7.84%
Chen Zheng	4,266,667	–	4,266,667	8,533,334	7.84%
Leung Shun Sang, Tony	2,130,000	–	3,333	2,133,333	1.96%
Kwong Che Keung, Gordon	–	–	1,706,667	1,706,667	1.57%
Xu Qing, Catherine	–	–	320,000	320,000	0.29%

* The relevant interests are unlisted physically settled equity derivatives pursuant to the share option scheme of GDC Technology adopted on 19 September 2006. The options at subscription price of HK$0.145 per share may be exercised in accordance with the terms of the share option scheme in full at any time within three years from 29 September 2006 and the options will expire at the close of business on 28 September 2009.

Save as disclosed above, as at 31 December 2006, none of the Directors and the Chief Executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTIONS SCHEMES

Share Option Scheme of the Company

The Company by shareholders' resolution passed at its Special General Meeting held on 18 July 2003, has adopted a share option scheme (the "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. Details of the Scheme are set out in note 36 to the financial statements.

Summary of the Scheme

(a) Purpose of the Scheme

The purpose of the Scheme is to reward the participants who have contributed to the Group. The Directors, at their sole discretion, will consider one or more of the following criteria in deciding whether a person has contributed to the Group:

- contribution to the development and performance of the Group;
- quality of work performed for the Group;

- initiative and commitment in performing his/her duties; and
- length of service or contribution to the Group.

(b) Participants of the Scheme

Pursuant to the terms of the Scheme, the Company may grant options to all full-time employees, Directors (including Independent Non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the Group who the Board considers, in its sole discretion, have contributed or contribution to the Group.

(c) Total number of shares available for issue under the Scheme

The maximum number of shares in respect of which options may be granted under the Scheme must not exceed 30% of total number of shares of the Company in issue from time to time.

The shares of the Company which may be issued upon exercise of all Share Options to be granted under the Scheme and any other share option schemes of the Company shall not exceed the Scheme Mandate Limit, being 10% of the shares of the Company in issue on Listing Date ("Scheme Mandate Limit") subject to the renewal of the Scheme Mandate Limit by Shareholders in general meeting from time to time provided the Scheme Mandate Limit as renewed must not exceed 10% of the shares of the Company in issue as at the date of the relevant Shareholders' approval. Share Options lapsed in accordance with the terms of the Scheme however will not be counted for the purpose of calculating the Scheme Mandate Limit.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (as the case may be) (including both exercised and outstanding options) in any 12 month period up to the date of grant must not exceed 1% of the shares in issue from time to time.

(e) Timing of exercise of options

Pursuant to the terms of the Scheme, an option may be exercised in accordance with the terms of the Scheme at any time during the option period but may not be exercised after the expiry of ten years from the date of grant of the option. The Directors may provide restrictions on the exercise of an option during the option period including (but not limited to):

- a minimum period during which all or part of an option may be exercised; and
- performance targets which must be achieved before the options can be exercised.

(f) Payment on acceptance of an option

Pursuant to the terms of the Scheme, HK$1.00 is payable by the grantee to the Company on acceptance of an option within 28 days from the offer date.

(g) Basis of determining the subscription price

The subscription price per share under the Scheme is determined by the Directors of the Company and notified to the grantee and shall be no less than the higher of:

- the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which must be a business day;

- the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and

- the nominal value of a share of the Company on the offer date.

(h) Duration of the Scheme

Subject to the terms of the Scheme, the Scheme shall be valid for a period of 10 years commencing 18 July 2003 and expire on 17 July 2013.

Share Option Scheme of GDC Technology

(a) Purpose

The GDC Technology Share Option Scheme ("GDC Technology Scheme") is a share incentive scheme and is established to provide the eligible participants an opportunity to have a personal stake in GDC Technology with the view to achieving the following objectives:

(i) recognise and acknowledge the contributions the eligible participants had or may have made to the Group;

(ii) motivate the eligible participants to optimise their performance efficiency for the benefit of the Group; and

(iii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Participants of GDC Technology Scheme

The board of directors of GDC Technology may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at a subscription price determined in accordance with paragraph (e) below to:

(i) any full-time or part-time employees, executives or officers of Group;

(ii) any Directors (including Non-executive Directors and Independent Non-executive Directors) of Group;

(iii) any advisers, consultants, suppliers, customers and agents to Group;

(iv) such other persons who, in the sole opinion of the board of directors of GDC Technology, will contribute or have contributed to Group.

(c) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the GDC Technology Scheme must not exceed 30% of total number of shares of the Company in issue from time to time.

The maximum number of shares in GDC Technology in respect of which options may be granted (including shares in respect of which options, whether exercised or still outstanding, have already been granted) under the GDC Technology Share Option Scheme and under any other share option schemes of GDC Technology must not in aggregate exceed 10% of the total number of shares of GDC Technology in issue from time to time ("Scheme Mandate Limit") subject to the renewal of the by shareholders of the Company and Shougang Grand in general meeting.

(d) *Maximum number of options to any one individual*

The total number of shares in GDC Technology issued and which may be issued upon exercise of the options granted under the GDC Technology Share Option Scheme and any other share option schemes of GDC Technology (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

(e) *Subscription price*

The subscription price of a share in GDC Technology in respect of any particular option granted under the GDC Technology Share Option Scheme shall be such price as the board of directors of GDC Technology in its absolute discretion shall determine, provided always that:

(i) the subscription price shall not be less than the nominal value of the shares; and

(ii) the subscription price shall be subject to the approval of the Board of the Company or any committee duly constituted thereof.

(f) *Time of exercise of Option and duration of the GDC Technology Scheme*

An option may be exercised in accordance with the terms of the GDC Technology Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of GDC Technology at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. The Directors may provide restrictions on the exercise of an option during the option period including, if appropriate:

a) a minimum period for which of an option must be held before it can exercised; and

b) performance targets which must be achieved before the options can be exercised.

(g) *Payment on acceptance of an option*

Pursuant to the terms of the GDC Technology Scheme, HK$1.00 is payable by the grantee to the Company on acceptance of an option within 30 days from the date of offer.

(h) *Duration of GDC Technology Scheme*

Subject to the terms of GDC Technology Scheme, the GDC Technology Scheme shall be valid for a period of 10 years commencing on 1 September 2006.

Report of the Directors

The following table sets out the movements in the Company's share options during the year:

Category or name of grantees	Date of grant	Exercise price	Balance as at 1.1. 2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Balance as at 31.12.2006
			Number of Share Options					
Directors	6.10.2006	HK0.3	–	42,443,460	–	–	6.10.2006 – 5.10.2009	42,443,460
Employees	6.10.2006	HK0.3	–	18,100,000	–	–	6.10.2006 – 5.10.2009	18,100,000
Other Participants	6.10.2006	HK0.3	–	9,304,920	–	–	6.10.2006 – 5.10.2009	9,304,920
Totals				69,848,380	–	–		69,848,380

The following table sets out the movements in the share options of GDC Technology during the year:

Category or name of grantees	Date of grant	Exercise price	Balance as at 1.1. 2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Balance as at 31.12.2006
			Number of Share Options					
Directors	29.9.2006	HK$0.145	–	12,693,334	(2,130,000)	–	29.9.2006 – 28.9.2009	10,563,334
Employees	29.9.2006	HK$0.145	–	12,789,998	–	(130,000)	29.9.2006 – 28.9.2009	12,659,998
Other Participants	29.9.2006	HK$0.145	–	1,173,333	–	–	29.9.2006 – 28.9.2009	1,173,333
Totals				26,656,665	(2,130,000)	(130,000)		24,396,665

VALUATION OF OPTIONS GRANTED DURING THE YEAR

Pursuant of GEM Listing Rules 23.08, the valuation of the GDC Share Option granted during ended 31 December 2006 is as follows:

The Scheme

During the year ended 31 December 2006, options were granted on 6 October 2006 and the estimated fair value of which at the date of grant was approximately HK$5,590,000. This fair value was calculated using the binominal model. The inputs into the model were as follows:

Weighted average share price	HK$0.28
Exercise price	HK$0.30
Expected volatility	87%
Expected life	3 years
Risk-free rate	3.75%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimated, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$5,590,000 for the year ended 31 December 2006 in relation to share options granted by the Company.

GDC Technology Scheme

During the year ended 31 December 2006, 26,656,665 options were granted on 29 September 2006. The valuation on the options was carried out on the date of grant by Sallmanns (Far East) Limited, an independent qualified professional valuer not connected with the Group.

Expected volatility was determined by using the historical volatility of the share price of other companies in the similar industry of GDC Technology over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimated, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$347,000 for the year ended 31 December 2006 in relation to share options granted by GDC Technology.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as is known to the Directors, the following, not being a Director or the 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:

Report of the Directors

Long positions in the Shares

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Percentage of interest as to the issued share capital of the Company	*Note*
Shougang Holding (Hong Kong) Limited **("Shougang Holding")**	Interests in controlled corporation	658,466,023	82.22%	*1*
Shougang Concord Grand (Group) Limited **("Shougang Grand")**	Interests in controlled corporation	658,466,023	82.22%	*1*
Upper Nice Assets Ltd. **("Upper Nice")**	Beneficial owner	658,466,023	82.22%	*1*
Sotas Limited **("Sotas")**	Beneficial owner	55,544,102	6.94%	*2*
Morningside Cyber Ventures Holdings Limited **("Morningside")**	Other	55,544,102	6.94%	*2*
Biswick Holdings Limited **("Biswick")**	Other	55,544,102	6.94%	*2*
Verrall Limited **("Verrall")**	Other	55,544,102	6.94%	*2*
Verrall Enterprises Holdings Limited	Other	55,544,102	6.94%	*2*
Madam Chan Tan Ching Fen	Other	55,544,102	6.94%	*2*

Notes:

(1) Upper Nice is an indirectly wholly-owned subsidiary of Shougang Grand which is incorporated in Bermuda as an exempted company with limited liability with its securities listed on the main board of the Stock Exchange and is regarded to be held as to approximately 41% by Shougang Holding as recorded under the register Shougang Grand kept under Section 336 of the SFO. The interests held by Upper Nice are included in the interests held by both of Shougang Grand and Shougang Holding.

Upper Nice (as the grantor) and Shougang Grand (as the guarantor) granted the Put Options (as defined in the joint announcement of the Company and Shougang Grand dated 25 August 2005) and whereby Upper Nice is obliged to purchase 58,000,000 shares of the Company, representing approximately 7.24% of issued share capital of the Company at the exercise price of HK$0.22 per share. On 5 November 2005, the 58,000,000 Options Shares have been transferred to Mr. Li Baoku at a price of HK$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku.

(2) The 55,544,102 shares were held by Sotas a company incorporated in the British Virgin Islands with limited liability. Sotas is wholly-owned by Morningside. Morningside is wholly-owned by Biswick in its capacity as trustee of a unit trust and units of which are owned by Verrall Enterprise Holdings Limited and Verrall in their capacities as trustees of family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).

Short positions in the Shares

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Percentage of interest as to the issued share capital of the Company
Li Baoku	Beneficial owner	58,000,000 *(Note)*	7.24%

Note: The 58,000,000 Option Shares have been transferred to Mr. Li Baoku at a price of HK$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku. Pursuant to the Option Agreement, in the event that exercises the Put Option, Mr. Li Baoku shall be entitled to sell up to all of the Option Shares beneficially owned by Mr. Li Baoku at the Exercise Price HK$0.22 and Upper Nice is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such Exercise Price.

Save as disclosed above, as at 31 December 2006, the Directors and the Chief Executive of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share option schemes disclosed above, at no time during the year 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.

CONNECTED TRANSACTIONS

On 6 July 2006, the Company has agreed to transfer 4,266,667 shares, 4,266,667 shares and 7,466,666 shares in the issued share capital of GDC Technology to Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang, respectively, for an aggregate cash consideration of HK$1,600,000. Details of the transfer of shares in GDC Technology were disclosed in the circular dated 28 July 2006.

RELATED PARTY TRANSACTION

Related party transactions of the Group for the year ended 31 December 2006 are set out in note 41 to the financial statements.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2006.

COMPETING INTERESTS

As at 31 December 2006, the interests of the Directors in the 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 Company) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Company were as follows:

Name of Director	Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group	Nature of interest(s) of the Director in the entity
Cao Zhong	Shougang Grand *(Note 1)*	Property investment and management financial and managing services and cultural recreation content provision *(Note 2)*	Vice-chairman and Managing Director
Chen Zheng	Shougang Grand *(Note 1)*	Property investment and management financial and managing services and cultural recreation content provision *(Note 2)*	Managing Director of Operation
Leung Shun Sang, Tony	Shougang Grand *(Note 1)*	Property investment and management financial and managing services and cultural recreation content provision *(Note 2)*	Director

Notes:

(1) Shougang Grand through Upper Nice Assets Ltd. indirectly holds approximately 82.22% (including underlying shares) interests in the Company.

(2) Those businesses are carried out through its subsidiaries or associates or by way of other form of investments.

Save as disclosed above, as at 31 December 2006, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that compete or is likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

BOARD PRACTICES AND PROCEDURES

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 period from 1 January 2006 to 31 December 2006.

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 year ended 31 December 2006.

AUDIT COMMITTEE

The Company has an Audit Committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Audit Committee, comprising three Independent Non-executive Directors, met four times during the financial year. During the meetings, the audit committee reviewed the accounting policies and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

AUDITORS

A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CAO ZHONG
Chairman
Hong Kong

13 March 2007

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 102, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 March 2007

Financial Contents

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	7	54,920	32,195
Cost of sales		(30,135)	(34,848)
Allowance for production work in progress		–	(24,712)
Gross profit (loss)		24,785	(27,365)
Other income		1,099	645
Distribution costs		(6,479)	(2,031)
Administrative expenses		(38,365)	(37,429)
Impairment losses recognised in respect of property, plant and equipment	15	–	(2,350)
Finance costs	10	(13,080)	(7,675)
Gain on disposal of partial interest in a subsidiary	11	1,795	–
Loss before tax		(30,245)	(76,205)
Income tax expense	12	–	(151)
Loss for the year	13	(30,245)	(76,356)
Loss per share	14		
Basic		(3.78 HK cents)	(9.53 HK cents)
Diluted		N/A	N/A

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	4,868	6,301
Available-for-sale investment	17	–	–
		4,868	6,301
Current assets			
Inventories	19	2,469	1,157
Production work in progress	20	–	951
Amounts due from customers for contract work	21	808	–
Trade receivables	22	6,080	3,664
Prepayments, deposits and other receivables	23(a)	3,680	2,124
Pledged bank deposits	24	–	16,455
Bank balances and cash	23(b)	8,596	3,667
		21,633	28,018
Current liabilities			
Income received in advance		6,701	2,725
Amounts due to customers for contract work	21	1,850	–
Trade payables	25	2,838	1,065
Other payables and accruals	26	29,288	23,615
Amounts due to fellow subsidiaries	27	12,284	18,783
Amounts due to directors	27	2,308	2,116
Amount due to a shareholder	28	339	339
Amounts due to related parties	29	1,501	5,125
Loan from a fellow subsidiary – due within one year	30	–	43,983
Loans from related parties	31	1,209	22,457
Obligations under finance leases – due within one year	32	1,484	3,468
Bank borrowings – due within one year	33	10,000	27,210
Other loans	34	18,295	8,243
		88,097	159,129
Net current liabilities		(66,464)	(131,111)
Total assets less current liabilities		(61,596)	(124,810)
Non-current liabilities			
Loan from a fellow subsidiary – due after one year	30	92,169	–
Obligations under finance leases – due after one year	32	489	1,907
Amount due to a related party – due after one year	29	455	1,495
		93,113	3,402
		(154,709)	(128,212)

Consolidated Balance Sheet

At 31 December 2006

	NOTE	2006 HK$'000	2005 HK$'000
Capital and reserves			
Share capital	35	8,008	8,008
Share premium and reserves		(163,034)	(136,220)
Equity attributable to equity holders of the parent		(155,026)	(128,212)
Equity component of share option reserve of a subsidiary		317	–
		(154,709)	(128,212)

The consolidated financial statements on pages 49 to 102 were approved and authorised for issue by the Board of Directors on 13 March 2007 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent										
	Share capital HK$'000	Share premium account HK$'000	Capital contribution reserve HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Statutory reserve HK$'000 (Note c)	Share options reserve HK$'000 (Note d)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Equity component of share option reserve of a subsidiary HK$'000	Total HK$'000
At 1 January 2005	8,008	92,438	–	40,271	680	891	34	(195,883)	(53,561)	–	(53,561)
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	(78)	–	(78)	–	(78)
Loss for the year	–	–	–	–	–	–	–	(76,356)	(76,356)	–	(76,356)
Total recognised expenses for the year	–	–	–	–	–	–	(78)	(76,356)	(76,434)	–	(76,434)
Sub-total	8,008	92,438	–	40,271	680	891	(44)	(272,239)	(129,995)	–	(129,995)
Deemed contribution from a former shareholder	–	–	445	–	–	–	–	–	445	–	445
Recognition of equity-settled share based payment	–	–	–	–	–	1,338	–	–	1,338	–	1,338
Cancellation of share option	–	–	–	–	–	(2,229)	–	2,229	–	–	–
At 31 December 2005 and at 1 January 2006	8,008	92,438	445	40,271	680	–	(44)	(270,010)	(128,212)	–	(128,212)
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	(2,161)	–	(2,161)	–	(2,161)
Loss for the year	–	–	–	–	–	–	–	(30,245)	(30,245)	–	(30,245)
Total recognised expenses for the year	–	–	–	–	–	–	(2,161)	(30,245)	(32,406)	–	(32,406)
Sub-total	8,008	92,438	445	40,271	680	–	(2,205)	(300,255)	(160,618)	–	(160,618)
Recognition of equity-settled share based payment	–	–	–	–	–	5,590	–	–	5,590	347	5,937
Exercise of share option	–	–	–	–	–	–	–	–	–	(28)	(28)
Cancellation of share option	–	–	–	–	–	–	–	2	2	(2)	–
At 31 December 2006	8,008	92,438	445	40,271	680	5,590	(2,205)	(300,253)	(155,026)	317	(154,709)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

Notes:

(a) Capital contribution reserve represents accumulated effect on imputed interest on amount due to a related party.

(b) The contributed surplus represents the difference between the nominal value of share capital of the Company issued and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002.

(c) As stipulated by the rules and regulations in the People's Republic of China (the "PRC"), foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. 環球數碼媒體科技（深圳）有限公司 ("IDMT Shenzhen") and 環球數碼媒體科技（上海）有限公司, wholly-foreign owned enterprises established in the PRC, are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their registered capital thereafter any further appropriation is optional and is determinable by the companies' board of directors. The statutory reserve as at 31 December 2006 represents general reserve fund of IDMT Shenzhen of approximately HK$680,000 (2005: HK$680,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

(d) Following the change of major shareholding in February 2005, the holding company, Shougang Concord Grand (Group) Limited ("Shougang Grand"), issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company. In accordance with Hong Kong Financial Reporting Standard 2 "Share-based Payment", as the outstanding options have been cancelled during the vesting period, it should be accounted for as an acceleration of vesting and recognise the amount immediately. Upon the cancellation of options, the share option reserve of approximately HK$2,229,000 was transferred to accumulated losses for the year ended 31 December 2005.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(30,245)	(76,205)
Adjustments for:		
Finance costs	13,080	7,675
Share-based payment expense	5,937	1,338
Depreciation	2,965	3,601
Allowance for bad and doubtful debts	1,660	521
Allowance for production work in progress	–	24,712
Allowance for inventories	–	2,645
Impairment losses recognised in respect of property, plant and equipment	–	2,350
Interest income	(69)	(66)
(Gain)/loss on disposal of property, plant and equipment	(453)	9
Gain on disposal of partial interest in a subsidiary (net of expenses)	(1,795)	–
Operating cash outflows before movements in working capital	(8,920)	(33,420)
(Increase)/decrease in inventories	(1,312)	1,890
Decrease/(increase) in production work in progress	2,819	(103)
Increase in amounts due from customers for contract work	(808)	–
(Increase)/decrease in trade receivables	(4,076)	13,826
(Increase)/decrease in prepayments, deposits and other receivables	(1,469)	1,843
Increase in income received in advance	3,864	557
Increase in amounts due to customers for contract work	1,850	–
Increase/(decrease) in trade payables	1,773	(9,953)
(Decrease)/increase in other payables and accruals	(586)	1,863
Increase/(decrease) in amounts due to directors	192	(921)
(Decrease)/increase in amounts due to fellow subsidiaries	(1,654)	18,783
CASH USED IN OPERATING ACTIVITIES	(8,327)	(5,635)
Income tax paid	–	(25)
NET CASH USED IN OPERATING ACTIVITIES	(8,327)	(5,660)
INVESTING ACTIVITIES		
Decrease/(increase) in pledged bank deposits	16,455	(14,451)
Purchase of property, plant and equipment	(3,504)	(424)
Interest received	69	66
Proceeds from disposal of property, plant and equipment	453	4
Proceeds from disposal of partial interest in a subsidiary (net of expenses)	1,767	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	15,240	(14,805)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES		
Increase in loan from a fellow subsidiary	33,740	33,140
Bank loans raised	10,000	12,487
(Repayment to)/advance from related parties	(4,417)	5,885
Repayment of bank loans	(28,236)	(15,055)
Interest paid	(1,066)	(6,253)
Repayment of obligations under finance leases	(3,402)	(5,843)
Repayment to shareholders	–	(1,808)
Repayment of other loans	(8,615)	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(1,996)	22,553
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,917	2,088
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	12	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,667	1,579
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	8,596	3,667

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Shougang Concord Grand (Group) Limited ("Shougang Grand"), a public listed company incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Stock Exchange. The immediate holding company is Upper Nice Assets Ltd., a wholly-owned subsidiary of Shougang Grand. The addresses of the registered office and principal place of business of the Company are disclosed in the "Company Information" section to the annual report.

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 42.

The consolidated financial statements are presented in Hong Kong dollars, while the functional currency of the Company is United States dollars. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the reader. The functional currency of the Company has been changed to United States dollars from Hong Kong dollars as the base of customers mainly changed to United States during the year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred losses of approximately HK$30,245,000 for the year ended 31 December 2006 and the Company and the Group had net current liabilities of approximately HK$18,867,000 and HK$66,464,000, respectively, and net liabilities of approximately HK$111,036,000 and HK$154,709,000, respectively, as at 31 December 2006. Notwithstanding, the Directors are of opinion that the preparation of these consolidated financial statements under going concern basis is appropriate due to the following considerations:

(1) Availability of facilities

The amount available to the Group for borrowings under the facilities granted by SCG Finance Corporation Limited ("SCG Finance"), a wholly-owned subsidiary of Shougang Grand, at 31 December 2006 is HK$100,000,000, of which approximately HK$92,169,000 is utilised as at 31 December 2006, and disclosed in note 30. The facilities are available up to 31 December 2008.

(2) Financial support

Shougang Grand has committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue its operations for a period of twelve months from the date of this report.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns, discounts and sales related taxes.

Sale of goods is recognised when goods are delivered and title has passed.

Technical service income is recognised when the service is provided.

Training fee income is recognised over the period of the training course on a straight line basis. Unearned training fee income received is recorded as income received in advance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Rental income from equipment leasing is recognised on a straight line basis over the relevant lease terms.

Receipts from distribution of digital motion pictures are recognised when the digital motion pictures are exhibited.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Subcontracting contracts for computer graphic ("CG") creation and production

Where the outcome of a subcontracting contract of CG creation and production can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Where the outcome of a subcontracting contract cannot be estimated reliably, subcontracting revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the excess is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the excess is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and presented as other payables and accruals. Grants related to depreciable assets are recognised as income on a systematic and rational basis over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Production work in progress

Production work in progress is stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Production costs are transferred to cost of sales upon completion.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when an entity of the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, amounts due to fellow subsidiaries, directors, a shareholder and related parties, loan from a fellow subsidiary and related parties, obligations under finance leases, bank borrowings and other loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in income statement.

Equity-settled share-based payment transactions

Share options granted to Directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or cancelled or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses/retained earnings.

Share options granted in exchange of goods and services

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following judgments that have a significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Going concern

The Group incurred losses of approximately HK$30,245,000 for the year ended 31 December 2006 and the Company and the Group had net current liabilities of approximately HK$18,867,000 and HK$66,464,000, respectively, and net liabilities of approximately HK$111,036,000 and HK$154,709,000, respectively, as at 31 December 2006. As disclosed in note 2, the Directors are of the opinion that the preparation of these consolidated financial statements on a going concern is appropriate. Should there be any problem in the going concern of the Group, all the assets and liabilities have to be stated at net realisable values. In particular, the non-current assets (which represent the property, plant and equipment only) and the non-current liabilities have to be reclassified as current assets and current liabilities respectively.

Allowance for bad and doubtful debts

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material loss may arise. Allowance for bad and doubtful debts of approximately HK$1,660,000 was made for the year ended 31 December 2006 (2005: HK$521,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. Allowance for inventories of approximately HK$2,645,000 was made for the year ended 31 December 2005 (2006: Nil).

Provision for litigations

The management of the Group monitor any litigation against the Group closely. Provision for the litigations is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2006, there is no foreseeable financial impact to the Group and no provision for litigations has been made. Details are set out in note 43.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, pledged bank deposits and bank balances, trade payables, other payables, amounts due to fellow subsidiaries/directors/a shareholder/related parties, loan from a fellow subsidiary/related parties, obligations under finance leases, bank borrowings and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group mainly earns revenue in United States dollars and incurs costs in Renminbi, United States dollars and Hong Kong dollars. Considering that the Group will have sufficient foreign exchange currencies to meet its foreign exchange requirement, the Directors believe that the Group does not have significant foreign exchange problems. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2006, the Group has no significant exposure under foreign exchange.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing loans from a fellow subsidiary and related parties, bank borrowings, other loans and obligations under finance leases. In relation to these borrowings, the Group currently does not have an interest rate hedging policy. The management manages and monitors this exposure and will consider to implement an appropriate hedging should the need arise.

The interest rate and terms of repayment of loans from a fellow subsidiary, loans from related parties, obligations under finance leases, bank borrowings and other loans of the Group are disclosed in notes 30, 31, 32, 33 and 34, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

7. REVENUE

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

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

	2006 HK$'000	2005 HK$'000
CG creation and production income	27,425	4,906
Sales of goods	12,845	19,128
Training fee	9,093	7,212
Receipts from distribution of digital motion pictures	2,929	–
Technical service income	2,245	867
Rental income from equipment leasing	383	82
	54,920	32,195

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, 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. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2006

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
Revenue				
External sales	30,354	15,473	9,093	54,920
Result				
Segment result	64	(7,224)	116	(7,044)
Unallocated corporate income				69
Unallocated corporate expenses				(11,985)
Finance costs				(13,080)
Gain on disposal of partial interest in a subsidiary				1,795
Loss before tax				(30,245)
Income tax expense				–
Loss for the year				(30,245)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2006

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION					
Capital additions	2,812	584	101	7	3,504
Depreciation	1,776	190	444	2,676	5,086
Allowance for bad and doubtful debts	–	1,660	–	–	1,660
Share-based payment expense	–	–	–	5,937	5,937

At 31 December 2006

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
BALANCE SHEET				
Assets				
Segment assets	8,417	7,065	1,486	16,968
Unallocated corporate assets				9,533
Consolidated total assets				26,501
Liabilities				
Segment liabilities	13,671	8,413	4,682	26,766
Unallocated corporate liabilities				154,444
Consolidated total liabilities				181,210

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2005

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
Revenue				
External sales	4,906	20,077	7,212	32,195
Result				
Segment result	(49,487)	(9,245)	3,621	(55,111)
Unallocated corporate income				66
Unallocated corporate expenses				(13,485)
Finance costs				(7,675)
Loss before tax				(76,205)
Income tax expense				(151)
Loss for the year				(76,356)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2005

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION					
Capital additions	2,002	411	222	–	2,635
Depreciation	5,333	1,947	437	143	7,860
Allowance for bad and doubtful debts	–	521	–	–	521
Allowance for production work in progress and inventories	24,712	2,645	–	–	27,357
Impairment losses recognised in respect of property, plant and equipment	–	2,350	–	–	2,350
Share-based payment expense	–	–	–	1,338	1,338

At 31 December 2005

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
BALANCE SHEET				
Assets				
Segment assets	2,106	7,981	6,211	16,298
Unallocated corporate assets				18,021
Consolidated total assets				34,319
Liabilities				
Segment liabilities	25,694	3,273	2,455	31,422
Unallocated corporate liabilities				131,109
Consolidated total liabilities				162,531

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

The Group's three business segments operate in seven main geographical areas, namely the United States, the People's Republic of China (the "PRC"), Europe, Singapore, Korea, India and other regions. The head office of the Group is located in Hong Kong. The Group's CG creation and production centre and the CG training facilities are located in the PRC. Customers of the Group's digital content distribution and exhibitions business are located in the PRC, India, Singapore and other regions.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods.

	2006 HK$'000	2005 HK$'000
United States	23,833	2,183
The PRC, excluding Hong Kong	18,266	13,769
Europe	1,990	4,125
Singapore	4,035	2,439
Korea	2,941	3,357
India	107	2,123
Other regions	3,748	4,199
	54,920	32,195

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Segment assets		Additions to property, plant and equipment	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
The PRC, excluding Hong Kong	15,334	21,950	2,945	2,224
Hong Kong	4,751	5,996	524	369
United States	3,269	–	–	–
Singapore	2,142	1,717	35	42
India	–	196	–	–
Other regions	1,005	4,460	–	–
	26,501	34,319	3,504	2,635

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 10 (2005: 11) Directors were as follows:

		Year ended 31 December 2006				
	Notes	Fees HK$'000	Share-based payment HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive Directors:						
Cao Zhong	(a)	120	696	–	–	816
Chen Zheng		120	696	–	–	816
Jin Guo Ping		–	641	943	12	1,596
Xu Qing, Catherine		–	645	936	12	1,593
		240	2,678	1,879	24	4,821
Non-executive Directors:						
Leung Shun Sang, Tony		120	668	–	–	788
Deng Wei, David	(b)	120	–	–	–	120
		240	668	–	–	908
Independent Non-executive Directors:						
Kwong Che Keung, Gordon		150	86	–	–	236
Bu Fan Xiao		150	64	–	–	214
Hui Hung, Stephen		138	64	–	–	202
Japhet Sebastian Law	(c)	10	–	–	–	10
		448	214	–	–	662
		928	3,560	1,879	24	6,391

Notes:

(a) Re-designated from Executive Director to Non-executive Director on 6 February 2006 and re-designated from Non-executive Director to Executive Director on 23 June 2006.

(b) Resigned on 15 February 2007.

(c) Resigned on 1 February 2006.

No Directors waived any emoluments in the year ended 31 December 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Notes	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
		Year ended 31 December 2005			
		HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors:					
Chen Zheng	(a)	–	–	–	–
Raymond Dennis Noeh	(b)	–	1,024	8	1,032
		–	1,024	8	1,032
Non-executive Directors:					
Cao Zhong	(c)	–	–	–	–
Deng Wei, David		210	–	–	210
Leung Shun Sang, Tony	(d)	10	–	–	10
Anthony Francis Neoh	(e)	–	–	–	–
Stephen Scharf	(f)	–	–	–	–
		220	–	–	220
Independent Non-executive Directors:					
Kwong Che Keung, Gordon		250	–	–	250
Bu Fan Xiao	(g)	71	–	–	71
Kwan Yuen Chiu, Paul	(h)	–	–	–	–
Japhet Sebastian Law	(i)	250	–	–	250
		571	–	–	571
		791	1,024	8	1,823

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

(a) Appointed on 15 February 2005.

(b) Resigned on 29 August 2005.

(c) Appointed on 16 February 2005, re-designated from Non-executive Director to Executive Director on 29 August 2005 and re-designated from Executive Director to Non-executive Director on 6 February 2006.

(d) Appointed on 1 December 2005.

(e) Resigned on 30 December 2005.

(f) Resigned on 16 February 2005.

(g) Appointed on 30 May 2005.

(h) Retired on 30 May 2005.

(i) Resigned on 1 February 2006.

No Directors waived any emoluments in the year ended 31 December 2005.

(b) Employees' emoluments

During the year, the five highest paid individuals included two Directors (2005: one director), details of whose emoluments are set out above. The emoluments of the remaining three (2005: four) highest paid individuals were as follows:

	2006 HK$'000	2005 HK$'000
Share-based payment	217	–
Salaries and other benefits	3,332	5,532
Retirement benefits schemes contributions	95	99
	3,644	5,631

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' EMOLUMENTS *(Continued)*

(b) Employees' emoluments *(Continued)*

Their emoluments were within the following bands:

	Number of employees 2006 HK$'000	2005 HK$'000
Nil to HK$1,000,000	2	3
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	–
HK$2,000,001 to HK$2,500,000	1	1
	3	4

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	349	847
Finance leases	335	624
Loan from a fellow subsidiary	9,601	3,155
Loans from shareholders	5	352
Loans from related parties	2,778	1,833
Other loans	–	396
Others	12	468
	13,080	7,675

11. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

The amount mainly represented the gain on a transfer of 15% interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, to the management of GDC Technology for cash consideration of HK$1,600,000. Upon the completion of the transaction in September 2006, the Group's effective shareholding interest in GDC Technology decreased from 100% to 85%.

In November 2006, Mr. Leung Shum Sang, Tony, a Director of the Company, exercised 2,130,000 share options and the Group's effective shareholding interest in GDC Technology has further decreased from 85% to 83.3%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
The income tax expense comprises:		
Deferred tax (note 18)	–	151

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements for both years 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 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.

The income tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Loss before tax	(30,245)	(76,205)
Tax calculated at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	(5,293)	(13,336)
Tax effect of income not taxable for tax purposes	(2)	(67)
Tax effect of expenses not deductible for tax purpose	4,148	14,576
Tax effect of tax losses not recognised	731	177
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	–	(3,484)
Effect of tax exemptions granted to subsidiaries in the PRC	224	320
Effect of different tax rates of subsidiaries operating in other jurisdictions	192	1,965
Income tax expense for the year	–	151

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. LOSS FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Loss for the year was arrived at after charging:		
Staff costs, including directors' emollients (note 9(a)):		
– Salaries, wages and other benefits	30,919	28,732
– Retirement benefit scheme contributions	403	483
Total staff costs	31,322	29,215
Less: amounts included in production work in progress	–	(14,083)
amounts included in contracts work in progress	(1,791)	–
amounts included in research and development costs	(2,422)	(2,324)
government grants	(835)	–
	26,274	12,808
Allowance for bad and doubtful debts	1,660	521
Auditors' remuneration	1,572	1,043
Depreciation	5,086	7,860
Less: amounts included in production work in progress	–	(4,259)
amounts included in contracts work in progress	(1,829)	–
government grants	(292)	–
	2,965	3,601
Exchange (gain) loss, net	(610)	353
Cost of inventories recognised as an expense	7,470	6,980
Loss on disposal of property, plant and equipment	–	9
Minimum lease payments under operating leases for land and buildings	3,318	2,302
Less: amounts included in production work in progress	–	(1,759)
amounts included in contracts work in progress	(2,278)	–
	1,040	543
Research and development costs	2,422	2,324
and after crediting:		
Gain on disposal of property, plant and equipment	453	–
Interest income	69	66

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14. LOSS PER SHARE

The calculation of the basic earnings per share is based on the loss attributable to ordinary equity holders of the parent of approximately HK$30,245,000 (2005: HK$76,356,000) and the 800,820,000 shares (2005: 800,820,000 shares) in issue during the year.

No diluted loss per share has been calculated for the years ended 31 December 2006 and 2005 as the exercise of the share options could result in a decrease in the loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Computer equipment HK$'000	Digital film encoders and servers HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2005	21,609	1,265	35,368	1,914	452	60,608
Exchange realignment	416	18	244	–	2	680
Additions	–	162	2,473	–	–	2,635
Disposals	–	(14)	(397)	–	–	(411)
At 31 December 2005	22,025	1,431	37,688	1,914	454	63,512
Exchange realignment	902	40	641	–	5	1,588
Additions	242	169	3,093	–	–	3,504
Disposals	–	–	(1,145)	(1,914)	–	(3,059)
At 31 December 2006	23,169	1,640	40,277	–	459	65,545
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1 January 2005	21,240	633	24,059	415	261	46,608
Exchange realignment	399	11	212	–	–	622
Provided for the year	104	269	7,208	191	88	7,860
Eliminated on disposals	–	(1)	(228)	–	–	(229)
Impairment losses recognised in the income statement	–	–	1,042	1,308	–	2,350

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Computer equipment HK$'000	Digital film encoders and servers HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2005	21,743	912	32,293	1,914	349	57,211
Exchange realignment	890	27	520	–	2	1,439
Provided for the year	384	163	4,493	–	46	5,086
Eliminated on disposals	–	–	(1,145)	(1,914)	–	(3,059)
At 31 December 2006	23,017	1,102	36,161	–	397	60,677
NET BOOK VALUES						
At 31 December 2006	152	538	4,116	–	62	4,868
At 31 December 2005	282	519	5,395	–	105	6,301

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	Over the term of the lease
Equipment, furniture and fixtures	5 years
Computer equipment	3 years
Digital film encoders and servers	10 years
Motor vehicles	5 years

During the year ended 31 December 2005, the Directors conducted a review of the Group's computer equipment and digital film encoders and servers and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, the carrying amount of the Group's computer equipment amounting to approximately HK$1,042,000 and the carrying amount of the Group's digital film encoders and servers amounting to approximately HK$1,308,000 were fully impaired. No further impairment on property, plant and equipment was identified as at 31 December 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 31 December 2005, the cost, accumulated depreciation and impairment, depreciation charge and impairment losses recognised for the year of digital film encoders and servers of the Group held for use in operating leases are analysed as follows:

	2006 HK$'000	2005 HK$'000
Cost	–	957
Accumulated depreciation and impairment	–	(957)
	–	–
Depreciation charge for the year	–	96
Impairment losses recognised for the year	–	605

At 31 December 2006, net book values of computer equipment and motor vehicles of the Group included amounts of approximately HK$1,221,000 (2005: HK$2,329,000) and Nil (2005: HK$21,000), respectively, in respect of assets held under finance leases.

Computer equipment with net book values of approximately HK$1,094,000 (2005: HK$2,040,000) are held under finance lease arrangement with South China International Leasing Company Limited ("South China Leasing"), an associate of the ultimate holding company.

16. JOINTLY CONTROLLED OPERATION

During the year ended 31 December 2006, the Group terminated a jointly controlled operation undertaken for a digital content distribution and exhibitions contract. The net assets as at 31 December 2005 and the results recognised for the year ended 31 December 2005 in the consolidated financial statements in relation to the Group's interests in the jointly controlled operation were as follows:

	HK$'000
RESULTS	
Revenue	–
Cost of sales – depreciation	(96)
Cost of sales – impairment	(605)
Group's share of loss for the year	(701)
NET ASSETS	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17. AVAILABLE-FOR-SALE INVESTMENT

	2006 HK$'000	2005 HK$'000
Unlisted equity securities	117	117
Less: Impairment losses recognised	(117)	(117)
	–	–

At 31 December 2006, the investment represents 25% equity interest in Production and Partners Multimedia, SAS ("P&PM"), a company incorporated in France. The investment is measured at cost less impairment at each balance sheet date. The investment is accounted for as available-for-sale investment as in the absence of representation in the board of directors, the Group does not have significant influence.

18. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group and movements thereon during the year and prior reporting periods:

	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005	118	33	151
Charge to income statement for the year	(118)	(33)	(151)
At 31 December 2005 and 31 December 2006	–	–	–

At the balance sheet date, the Group has the following major deductible temporary differences and tax losses, of which no deferred tax assets were recognised due to the unpredictability of the future profit streams:

	2006 HK$'000	2005 HK$'000
Unrealised profits resulting from intra-group transactions	6,575	6,575
Tax losses that may be carried forward indefinitely	7,398	3,745
	13,973	10,320

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

19. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials, net of allowance of approximately HK$135,000 (2005: HK$475,000)	1,770	448
Finished goods, net of allowance of approximately HK$597,000 (2005: HK$2,170,000)	699	709
	2,469	1,157

20. PRODUCTION WORK IN PROGRESS

	Notes	2006 HK$'000	2005 HK$'000
Movie, net of allowance of approximately Nil (2005: HK$94,712,000)	(i)	–	–
Television series, net of allowance of HK$14,615,000 (2005: HK$14,615,000)	(ii)	–	–
Others		–	951
		–	951

Notes:

(i) The amount represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Film"), a movie project produced by the Group. Considering the potential markets, the Directors had made a full allowance of approximately HK$94,712,000 as at 31 December 2005. The Film was released in the PRC during the year ended 31 December 2006 and the cost and allowance of the Film has been written off accordingly during the year.

Details of the movements are as follows:

	HK$'000
COST	
At 1 January 2005	90,340
Additions	4,372
At 31 December 2005 and 1 January 2006	94,712
Write off	(94,712)
At 31 December 2006	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20. PRODUCTION WORK IN PROGRESS *(Continued)*

Notes: *(Continued)*

(i) *(Continued)*

	HK$'000
ALLOWANCE	
At 1 January 2005	(70,000)
Addition	(24,712)
At 31 December 2005 and 1 January 2006	(94,712)
Write off	94,712
At 31 December 2006	–
CARRYING AMOUNT	
At 31 December 2006 and 2005	–

(ii) The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As at 31 December 2006, there was a litigation in relation to the co-production of the TV Series, details of which are set out in note 43, the Directors have considered that recoverability of the production costs already incurred is uncertain and a full allowance of approximately HK$14,615,000 was made as at 31 December 2004.

21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following is details of contracts from CG production in progress at the balance sheet date:

	2006 HK$'000	2005 HK$'000
Contract costs incurred plus recognised profits less recognised losses	18,488	–
Less: progress billings	(19,530)	–
	(1,042)	–
Analysed for reporting purposes as:		
Amounts due from customers for contract work	808	–
Amounts due to customers for contract work	(1,850)	–
	(1,042)	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

22. TRADE RECEIVABLES

The Group allows a different average 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 balance sheet date:

	2006 HK$'000	2005 HK$'000
Within three months	5,514	2,527
Three to six months	519	786
Over six months	47	351
	6,080	3,664

The Directors consider that the fair value of the Group's trade receivables at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

23. OTHER FINANCIAL ASSETS

(a) Other receivables

The Directors consider that the fair value of the Group's other receivables approximates to the corresponding carrying amount.

(b) Bank balances

The Group's deposits carry interest rate at prevailing bank saving deposits rate at approximately of 2.5% and mature within 3 months. The Directors consider that the fair value of the Group's bank balances approximates to the corresponding carrying amount.

24. PLEDGED BANK DEPOSITS

At 31 December 2005, the amount represented deposits pledged to banks to secure short-term banking facilities granted to the Group and were therefore classified as current assets.

The deposits carried interest rate at respective bank saving deposits rate. The pledged bank deposits would be released upon the settlement of relevant bank borrowings. The Directors consider that the fair value of the Group's bank deposits at 31 December 2005 approximated to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

25. TRADE PAYABLES

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

	2006 HK$'000	2005 HK$'000
Within three months	2,688	1,049
Three to six months	150	16
	2,838	1,065

The Directors consider that the fair value of the Group's trade payables at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

26. OTHER PAYABLES

The Directors consider that the fair value of the Group's other payables at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

27. AMOUNTS DUE TO FELLOW SUBSIDIARIES AND DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand. The Directors consider that the fair values of the balances at 31 December 2006 and 2005 approximate to the corresponding carrying amounts.

28. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand. The Directors consider that the fair value of the balance at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. AMOUNTS DUE TO RELATED PARTIES

	Notes	2006 HK$'000	2005 HK$'000
Amounts due to related parties – due within one year:			
Mr. Anthony Francis Neoh	(a)	–	4,147
Mr. Raymond Dennis Neoh	(b)	575	–
Global Digital Creations Limited ("GDCL")	(c)	422	422
Bright Oceans Corporation (HK) Limited ("Bright Oceans")	(a)	303	458
Madam Chan Wing Yee, Betty	(d)	201	98
		1,501	5,125
Amount due to a related party – due after one year:			
Mr. Raymond Dennis Neoh	(b)	455	1,495
		1,956	6,620

Notes:

(a) Both Mr. Anthony Francis Neoh and Bright Oceans are shareholders of Shougang Grand. The amounts were unsecured, non-interest bearing and repayable on demand. As at 31 December 2006, amount due to Mr. Anthony Francis Neoh was assigned to a third party, Win Real Management Limited at the amount of approximately HK$5,613,000. Accordingly, the balance is reclassified as other payable as at 31 December 2006.

(b) The amount due to Mr. Raymond Dennis Neoh, an ex-director and the younger brother of Mr. Anthony Francis Neoh, is non-interest bearing and is repayable on August 2008. The amount was stated at amortised cost at effective interest rate of 9.8% per annum. The imputed interest expenses amounting to HK$445,000 was deemed to be a capital contribution and recognised as capital contribution reserve as at 31 December 2005. During the year, imputed interest expense amounting to HK$263,000 was charged to the consolidated income statement.

(c) GDCL is a former holding company of the subsidiaries comprising the Group prior to the group reorganisation completed on 31 December 2002. The amount due to GDCL is unsecured, non-interest bearing and repayable on demand.

(d) Madam Chan Wing Yee, Betty is the spouse of Mr. Anthony Francis Neoh. The amount is unsecured, non-interest bearing and repayable on demand.

The Directors consider that the fair values of the amounts due to related parties as at 31 December 2006 and 2005 approximate to the corresponding carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

30. LOAN FROM A FELLOW SUBSIDIARY

The loan is due from SCG Finance which is unsecured, bears interest at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited ("Best Lending Rate") from time to time plus 3% per annum and with maturity date extended to 31 December 2008 from 31 December 2006. Accordingly, the balance was classified from current liability to non-current liability as at 31 December 2006.

The fair value of the balance at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

31. LOANS FROM RELATED PARTIES

	Notes	2006 HK$'000	2005 HK$'000
Mr. Anthony Francis Neoh	(a)	–	18,256
Madam Chan Wing Yee, Betty	(b)	1,000	1,000
Bright Oceans	(c)	209	3,201
		1,209	22,457

Notes:

(a) The loan from Mr. Anthony Francis Neoh is unsecured, bears interest at the Best Lending Rate from time to time plus 3% per annum and is repayable on demand. As at 31 December 2006, the loan was assigned to a third party, Win Real Management Limited at the amount of approximately HK$18,295,000. Accordingly, the loan was reclassified as other loan, as disclosed in note 34.

(b) The loan is advanced from Madam Chan Wing Yee, Betty, the spouse of Mr. Anthony Francis Neoh. The loan is unsecured, bears interest at the Best Lending Rate plus 3% per annum and is repayable on demand.

(c) Bright Oceans is a shareholder of Shougang Grand. The loan is unsecured, bears interest at Best Lending Rate from time to time plus 3% per annum and is repayable demand.

The Directors consider that the fair values of the loans from related parties at 31 December 2006 and 2005 approximate to the corresponding carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Amounts payable under finance leases:				
Within one year	1,567	3,939	1,484	3,468
In more than one year but not more than two years	504	1,534	489	1,455
In more than two years but not more than three years	–	462	–	452
	2,071	5,935	1,973	5,375
Less: Future finance charges	(98)	(560)	–	–
Present value of lease obligations	1,973	5,375	1,973	5,375
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,484)	(3,468)
Amount due for settlement after 12 months			489	1,907

It is the Group's policy to lease certain of its computer equipment and motor vehicles under finance leases. The lease terms range from two to three years. Interest rates are fixed at the contract date ranged from 6.3% to 12.3% per annum for both years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The Group had entered into finance lease arrangements for leasing computer equipment from South China Leasing. As at 31 December 2006, the finance lease payable to South China Leasing amounted to approximately HK$1,333,000 (2005: HK$1,898,000). Interest expense paid during the year in connection to the finance lease amounted to approximately HK$107,000 (2005: HK$51,000).

The Directors consider that the fair value of the obligations under finance leases at 31 December 2006 and 2005 approximates to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

33. BANK BORROWINGS

	Notes	2006 HK$'000	2005 HK$'000
Unsecured bank loans	(a)	10,000	24,960
Secured bank overdrafts	(b)	–	2,250
		10,000	27,210

The above amounts bear interest at prevailing market rates and are repayable within twelve months.

Notes:

(a) On 31 October 2002, banking facilities of RMB30,000,000, or equivalent to approximately HK$30,000,000, had been obtained by 環球數碼媒體科技(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen"), a wholly-owned subsidiary of the Company, from Bank of China, Shenzhen branch ("BOC Facilities"). The BOC Facilities were renewed and the maturity date extended from 31 October 2004 to 3 November 2005 and then further extended to January 2007. The outstanding loan as at 31 December 2006 was RMB10,000,000 (2005: RMB14,985,000), or equivalent to approximately HK$10,000,000 (2005: HK$14,394,000), and full repayment has been made in January 2007. RMB14,999,000, or equivalent to approximately HK$14,407,000, bank deposits in Bank of China, Shenzhen branch of IDMT Shenzhen was pledged for the purpose of loan renewal arrangement as at 31 December 2005.

At 31 December 2005, the BOC Facilities were guaranteed by the Company and 中投信用擔保有限公司 ("CICG"), an independent third party (the "CICG Guarantee"). The Company and Mr. Raymond Dennis Neoh had given counter-guarantees in favour of CICG and GDC China Limited ("GDC China"), a subsidiary of the Company, has pledged its entire interest in the registered capital of IDMT Shenzhen to CICG ("BOC Asset Pledge") for the repayment of all debts incurred by CICG for which CICG was liable under the CICG Guarantee. The counter-guarantee given by Mr. Raymond Dennis Neoh and the Company and the BOC Asset Pledge remain effective until IDMT Shenzhen has repaid all debts under the BOC Facilities.

In March 2005, Shenzhen Commercial Bank has granted a new bank loan amounted to RMB13,000,000, or equivalent to approximately HK$12,257,000, matured in March 2006 to IDMT Shenzhen with guarantee given by SCG. The outstanding loan as at 31 December 2005 was RMB11,000,000, or equivalent to approximately HK$10,566,000.

(b) At 31 December 2005, a short-term deposit of approximately HK$2,048,000 was pledged to a bank to secure the bank overdrafts. In addition, the Company provided a corporate guarantee of HK$2,000,000 for the overdrafts.

The deposit carried floating interest rate and would be released upon the settlement of relevant bank borrowings. The Directors consider that the fair value of the bank deposits as 31 December 2005 approximated to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

33. BANK BORROWINGS *(Continued)*

The bank borrowings are arranged at averaging floating interest rates as follows:

	2006	2005
Bank loans	6.28%	6.42%
Bank overdrafts	N/A	Prime rate* +1%

* Prime rate represents the Hong Kong Dollar Prime Lending Rate as quoted from time to time by the Hang Seng Bank.

The Directors consider that the fair value of the Group's bank borrowings approximates to the corresponding carrying amount.

34. OTHER LOANS

	Notes	2006 HK$'000	2005 HK$'000
上海新長寧(集團)有限公司(“上海新長寧”)	(a)	–	7,943
Madam Chu Kwok Ying	(b)	–	300
Win Real Management Limited	(c)	18,295	–
		18,295	8,243

Notes:

(a) The loan was unsecured, carried interest at 6% per annum and with maturity date due by 30 June 2005. The loan was guaranteed by the Company. As at 31 December 2005, interest payable in the amount of approximately HK$954,000 in connection with the loan is included in other payables and accruals. In March 2006, the Group has signed an agreement with 上海新長寧 to extend the maturity date of the outstanding loan of RMB6,262,000, or equivalent to approximately HK$6,015,000, to August 2006. The loan had been fully repaid during the year.

(b) The loan was unsecured, carried interest at the Best Lending Rate from time to time plus 3% per annum and had been fully repaid during the year.

(c) The loan was unsecured, carried interest at the Best Lending Rate from time to time plus 3% per annum and is repayable on demand. As at 31 December 2006, the loan has been assigned from Mr. Anthony Francis Neoh at the amount of approximately HK$18,295,000 and was reclassified from loans from related parties, as disclosed in note 31.

The Directors consider that the fair values of the Group's other loans approximate to the corresponding carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

35. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005 and 31 December 2005 and 2006	1,200,000,000	12,000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005 and 2006	800,820,000	8,008

36. SHARE OPTION SCHEMES

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed at its Special General Meeting held on 18 July 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on 17 July 2013.

Under the terms of Scheme, the Board of Directors of the Company (the "Board") may grant options to all full-time employees, Directors (including Independent Non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the Group who the Board considers, in its sole discretion, have contributed or contribution to the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Scheme is not permitted to exceed 10% of the shares of the Company in issue which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme and any other share option schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates would result in the shares of the Company being issued or to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses according to the Scheme and ten years from the date of offer of that opinion. A consideration of HK$1 is payable upon acceptance the offer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

36. SHARE OPTION SCHEMES *(Continued)*

The exercise price is determined by the Directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

During the year ended 31 December 2005, 14,300,000 options have been granted under the Scheme to the Directors of the Company of which three tranches of 5,100,000, 5,100,000 and 4,100,000 options shall be vested on the date of approval of the grant of the option, the first and the second anniversary dates of the approval, respectively. Such 14,300,000 options may be exercised at any time during the period from 24 June 2005 to 17 July 2013 at an exercise price of HK$0.44 per each option. Total consideration received during the year ended 31 December 2005 for taking up the options granted was amounted to HK$4.

Following the change of major shareholding in February 2005, Shougang Grand issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company. In accordance with HKFRS 2 Share-based Payment, as the outstanding options have been cancelled during the vesting period, it should be accounted for as an acceleration of vesting and recognise the amount immediately. Upon the cancellation of options the share option reserve of approximately HK$2,229,000 was transferred to accumulated losses during the year ended 31 December 2005. Share option expense in the amount of approximately HK$1,338,000 was recognised during the year ended 31 December 2005.

The following table discloses the details of the share options under Scheme held by the Directors and movements in such holdings during the year of 2005:

			Number of share options		
Name of Director	Date of grant	Exercise price HK$	Outstanding at 1 January 2005	Cancelled during the year	Outstanding at 31 December 2005
Directors	21 June 2004	0.44	5,100,000	(5,100,000)	–
	21 June 2004	0.44	5,100,000	(5,100,000)	–
	21 June 2004	0.44	4,100,000	(4,100,000)	–
			14,300,000	(14,300,000)	–

The options granted may be exercised in accordance with the terms of the relevant scheme as to:

(i) The first tranch of 5,100,000 options will be exercisable from the date of grant;

(ii) The second tranch of 5,100,000 options will be exercisable after the expiry of 12 months from the date of grant;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

36. SHARE OPTION SCHEMES *(Continued)*

(iii) The third tranch of 4,100,000 options will be exercisable after 24 months from the date of grant; and

(iv) The options will expire after ten years from date of grant.

During the year ended 31 December 2006, 69,848,380 options and 26,656,665 options have been granted under the Scheme and GDC Technology Share Option Scheme to the Directors, employees and other participants, respectively.

The following table sets out the movements in the Company's share options during the year:

			Number of share options					
Category or name of grantees	Date of grant	Exercise price	Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Balance as at 31.12.2006
Directors	6.10.2006	HK0.3	–	42,443,460	–	–	6.10.2006–5.10.2009	42,443,460
Employees	6.10.2006	HK0.3	–	18,100,000	–	–	6.10.2006–5.10.2009	18,100,000
Other Participants	6.10.2006	HK0.3	–	9,304,920	–	–	6.10.2006–5.10.2009	9,304,920
Totals				69,848,380	–	–		69,848,380

The following table sets out the movements in the share options of GDC Technology during the year:

			Number of share options					
Category or name of grantees	Date of grant	Exercise price	Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Balance as at 31.12.2006
Directors	29.9.2006	HK$0.145	–	12,693,334	(2,130,000)	–	29.9.2006–28.9.2009	10,563,334
Employees	29.9.2006	HK$0.145	–	12,789,998	–	(130,000)	29.9.2006–28.9.2009	12,659,998
Other Participants	29.9.2006	HK$0.145	–	1,173,333	–	–	29.9.2006–28.9.2009	1,173,333
Totals				26,656,665	(2,130,000)	(130,000)		24,396,665

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

36. SHARE OPTION SCHEMES *(Continued)*

The fair value per option of HK$0.16, HK$0.013 and HK$0.08 for options granted on 21 June 2004, 29 September 2006 and 6 October 2006 were calculated using the Binomial Option Valuation pricing model. The inputs into the model were as follows:

	Share option grant date		
	21 June 2004	29 September 2006	6 October 2006
Weighted average share price	HK$0.44	HK$0.10	HK$0.28
Exercise price	HK$0.44	HK$0.145	HK$0.30
Expected volatility	96%	32%	87%
Expected life	10 years	3 years	3 years
Risk-free rate	4.57%	3.77%	3.75%
Expected dividend yield	NIL	NIL	NIL

Expected volatility of the Company and GDC Technology were determined by using the historical volatility of the Company's share price and the share price of other companies in the similar industry, respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$5,937,000 for the year ended 31 December 2006 (2005: HK$1,338,000) in relation to share options granted by the Company and GDC Technology.

The Company's share options granted to other participants are measured by reference to the fair value of options granted as these other participants render services similar to those as employees.

37. MAJOR NON CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$2,211,000.

Besides, details of the reclassification of amounts due to related parties and loans from related parties to other payables and accruals and other loans as set out in notes 29 and 31.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

38. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	1,791	1,447
In the second to fifth year inclusive	3,321	4,808
Over five years	3,905	–
	9,017	6,255

Operating lease payment represents rentals payable by the Group for certain of its office premises, production studio, training centers, warehouse, staff quarters and furniture, fixtures and equipment. Leases for properties are negotiated for a term ranging from one to ten years with fixed rentals.

39. RETIREMENT BENEFITS SCHEME

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling approximately HK$133,000 (2005: HK$91,000) payable to the Retirement Schemes at 31 December 2006 are included in other payables and accrued charges. There was no forfeited contribution throughout the year (2005: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

40. POST BALANCE SHEET EVENT

Subsequent to 31 December 2006, the Group has completed the following transactions:

(a) On 1 December 2006, GDC Technology has entered into a conditional agreement with a subscriber (the "GDC Tech Subscriber"), which is a company incorporated in the British Virgin Islands (the "BVI") and wholly-owned by a substantial shareholder of Shougang Grand, where the GDC Tech Subscriber will subscribe 52,383,580 shares of GDC Technology, representing approximately 48.1% of the existing issued share capital of GDC Technology, at a consideration of US$6.5 million (equivalent to approximately HK$50,570,000) (the "GDC Tech Subscription").

Upon completion of the GDC Tech Subscription, the Company's effective shareholding interest in GDC Technology will be diluted from approximately 83.3% to 56.3% of the issued capital of GDC Technology as enlarged by the GDC Tech Subscription.

The GDC Tech Subscription was completed subsequently in January 2007.

(b) On the same day, the Company has also entered into a conditional agreement with a subscriber other than the GDC Tech Subscriber (the "GDC Subscriber"), which is a company incorporated in the BVI and wholly-owned by a substantial shareholder of Shougang Grand, where the GDC Subscriber will subscribe 40,000,000 shares of the Company, representing approximately 4.99% of the existing issued share capital of the Company, at a subscription price of HK$0.2436 per Share (the "GDC Subscription"). The total consideration of the subscription of the shares by the GDC Subscriber is approximately HK$9,744,000.

The GDC Subscription was also completed subsequently in January 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

41. RELATED PARTY TRANSACTIONS

(a) During the year, the Company entered into the following transactions with related parties:

	Notes	2006 HK$'000	2005 HK$'000
Rental expense paid to Shougang Grand in respect of an office premise	(a)	540	410
Rental expense paid to Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, in respect of a director quarter	(a)	–	224
Interest expense paid to South China Leasing in respect of finance lease obligations	(b)	107	51
Interest expense payable to Mr. Anthony Francis Neoh	(c)	2,413	1,823

Notes:

(a) The transactions were carried out in accordance with the relevant tenancy agreements.

(b) The transaction was carried out in accordance with relevant lease agreements. As disclosed in note 32, the Group had entered into finance lease arrangement with South China Leasing in respect of computer equipment. The relevant net book values of the computer equipment held under finance lease amounted to approximately HK$1,094,000 (2005: HK$2,040,000) as at 31 December 2006, as disclosed in note 15.

c) Mr. Anthony Francis Neoh is the shareholder of Shougang Grand.

In addition, on 6 July 2006, the Company has agreed to transfer 4,266,667 shares, 4,266,667 shares and 7,466,666 shares in the issued share capital of GDC Technology, to Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang, respectively, for an aggregate cash consideration of HK$1,600,000. Details of the transfer of shares in GDC Technology were disclosed in the circular dated 28 July 2006.

(b) Compensation of key management personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	5,341	6,422
Share-based payment	3,965	1,338
	9,306	7,760

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

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 27, 28, 29, 30 and 31, and details of a counter-guarantee given by Mr. Raymond Dennis Neoh was set out in note 33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

42. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued share capital/ paid up capital	Attributable equity interest of the Group directly %	indirectly %	Principal activities and place of operation
GDC (BVI) Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	–	Investment holding
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	–	100	Investment holding
GDC Asset Management Limited	Incorporated	BVI	1 ordinary shares of US$1	–	100	Investment holding in Hong Kong
GDC Management Services Limited (formerly known as GDC Capital Limited)	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	100	Provision of administration and management service
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	100	Investment holding in Hong Kong
GDC Entertainment Limited ("GDC Entertainment")	Incorporated	BVI	3,510 ordinary shares of US$1 each	–	100	Animation investment, licensing and merchandising distribution in a worldwide basis
GDC International Limited	Incorporated	Samoa	1 ordinary shares of US$1	–	100	Provision of CG animation creation and production services
GDC Technology Limited	Incorporated	BVI	108,796,667 ordinary shares of HK$0.10	–	83.3	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

42. PARTICULARS OF SUBSIDIARIES *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued share capital/ paid up capital	Attributable equity interest of the Group directly %	Attributable equity interest of the Group indirectly %	Principal activities and place of operation
GDC Technology China Ltd.	Incorporated	BVI	1 ordinary shares of US$1	–	83.3	Inactive
GDC Technology (Hong Kong) Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1	–	83.3	Inactive
GDC Technology Pte. Ltd.	Incorporated	Singapore	900,000 ordinary shares of S$1.00	–	83.3	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited	Incorporated	PRC	US$140,000	–	100	Provision of CG and animation training in the PRC
環球數碼媒體科技研究(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen")	Incorporated	PRC	US$708,595	–	100	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
深圳市環球數碼影城文化有限公司	Incorporated	PRC	Issued capital of RMB2,480,000	–	100	Inactive
深圳市環球數碼科技有限公司	Incorporated	PRC	RMB3,000,000	–	83.3	Inactive

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

43. LITIGATIONS

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

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

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

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

(b) On 16 August 2006, 深圳大學文化科技服務有限公司 ("Shenzhen University") commenced legal action in the People's Court (Nanshan District) in the PRC against IDMT Shenzhen for, among others, unpaid rent, related expenses and compensation in the amount of approximately RMB8,960,000. On 14 September 2006, IDMT Shenzhen filed a counterclaim against Shenzhen University for, among others, compensation for renovation fee and relocation expenses in the amount of approximately RMB10,726,000 and RMB6,000,000, respectively, and returns of rental deposit. This action is continuing.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

44. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'000
Non-current assets		
Interests in subsidiaries	–	–
Amounts due from subsidiaries	–	–
	–	–
Current assets		
Prepayment, deposits and other receivables	807	5
Bank balances and cash	60	6
	867	11
Current liabilities		
Other payables and accruals	4,631	3,509
Amount due to a fellow subsidiary	12,284	17,410
Amounts due to directors	2,308	2,116
Amount due to a related party	303	458
Loan from a fellow subsidiary	–	43,983
Loan from a related party	208	3,201
Other loans	–	300
	19,734	70,977
Net current liabilities	(18,867)	(70,966)
Non-current liability		
Loan from a fellow subsidiary	92,169	–
	(111,036)	(70,966)
Capital and reserves		
Share capital	8,008	8,008
Share premium and reserves	(119,044)	(78,974)
	(111,036)	(70,966)

Five Years Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2002	2003	2004	2005	2006
	HK$'000 (note)	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	2,306	11,478	47,987	32,195	54,920
Loss from operations	(15,633)	(28,045)	(125,657)	(68,530)	(17,165)
Finance costs	(1,796)	(5,255)	(5,545)	(7,675)	(13,080)
Loss before tax	(17,429)	(33,300)	(131,202)	(76,205)	(30,245)
Income tax credit (expense)	–	151	(25)	(151)	–
Loss for the year	(17,429)	(33,149)	(131,227)	(76,356)	(30,245)

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2002	2003	2004	2005	2006
	HK$'000 (note)	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	81,929	146,003	69,060	34,319	26,501
Total liabilities	76,502	77,561	122,621	162,531	181,210
Net assets (liabilities)	5,427	68,442	(53,561)	(128,212)	(154,709)

Note: The results for the year ended 31 December 2002 which were extracted from the prospectus dated 23 July 2003 issued by the Company have been prepared as if the Company had always been the holding company of the Group from the beginning of the earliest period presented, using the merger method.

G·D·C